

Department of Resources Recycling and Recovery

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

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This report concludes that because of forecasting deficiencies, the Department of Resources Recycling and Recovery (department) was not always able to reliably project the revenues and expenditures in the department's Beverage Container Recycling Fund (beverage fund). Moreover, ineffective supervision and errors hindered the department's forecasting reliability and more recently resulted in a \$158.1 million overstatement of the projected beverage fund balance in the 2009–10 Governor's Budget. Further, we found that the department could do more to effectively manage the Beverage Container Recycling Program (beverage program). For example, the department has not followed its plan to audit the top 100 beverage distributors that provided 90 percent of the revenues to the beverage fund, and when audits were conducted, a significant lag existed between the audit's completion and billing for identified underpayments, which increased its risk for failing to collect underpayments before the two-year statute of limitations. In fact, we noted three instances where the department exceeded the statute of limitations and lost the opportunity to collect up to \$755,000. Further, the department could improve its efforts to prevent fraud by better tracking fraud leads and having a systematic method for analyzing recycling data for potential fraud. In addition, the department is currently conducting enhanced efforts to prevent fraud before it occurs, but has not yet set specific goals to evaluate the success of these efforts. Our review also revealed that the department did not consistently oversee recycling grants and for six grants we reviewed it did not ensure that grantees met their commitments, which ultimately cost the State nearly \$2.2 million. Finally, although the department has a strategic plan, we believe it should consider establishing benchmarks or metrics that would allow it to more clearly measure the success of the beverage program.

In the report, the California State Auditor (state auditor) made the following recommendations to the department. The state auditor's determination regarding the current status of recommendations is based on the department's response to the state auditor as of December 2011.

Recommendation 1.1.a—See pages 13—22 of the audit report for information on the related finding.

To improve its forecasting of revenues and expenditures for the beverage fund, the department should implement a new forecasting model in time for it to be used for the fiscal year 2011–12 Governor's Budget.

Department's Action: Fully implemented.

The department redesigned its forecasting methodology, which it used for the October 2010 fund projection.

Recommendation 1.1.b—See pages 13—22 of the audit report for information on the related finding.

To improve its forecasting of revenues and expenditures for the beverage fund, the department should place appropriate controls over the forecast model, including having management review the reliability of forecasting results before they are used and monitoring the reliability of forecast results against actual figures on a monthly and yearly basis.

Department's Action: Fully implemented.

The department implemented review procedures, including a process to compare actual sales and return values with prior projections.

Recommendation 1.1.c—See pages 13—22 of the audit report for information on the related finding.

To improve its forecasting of revenues and expenditures for the beverage fund, the department should ensure that the contingency reserve for the beverage fund does not exceed the statutory limit specified in the Public Resources Code.

Department's Action: Fully implemented.

The department followed the Public Resources Code when calculating the contingency reserve and has implemented review procedures to evaluate the appropriateness of the contingency reserve.

Recommendation 1.1.d—See pages 13—22 of the audit report for information on the related finding.

To improve its forecasting of revenues and expenditures for the beverage fund, the department should continue with its efforts to hire an economist to lead its forecasting efforts.

Department's Action: Fully implemented.

Following the August 2010 hiring freeze, the department indicated that it suspended its process for hiring an economist to lead its forecasting efforts. Nevertheless, to mitigate this impact, it assigned a department employee to assist in reviewing and revising the forecasting model.

Recommendation 1.1.e—See pages 13—22 of the audit report for information on the related finding.

To improve its forecasting of revenues and expenditures for the beverage fund, the department should ensure that the actual fund balances of the beverage fund in future governor's budgets reflect actual revenues and expenditures from its accounting records.

Department's Action: Fully implemented.

The department developed a procedure to reconcile its records with the State Controller's Office data to ensure correct information is presented to the Department of Finance for preparing the governor's budget.

Recommendation 1.2—See pages 22—27 of the audit report for information on the related finding.

The department should better follow its three-year plan to audit beverage distributors. Steps to accomplish this goal could include performing an analysis of risks that could result in underpayment of redemption payments or implementing policies to terminate audits after the department's initial assessment of a beverage distributor concludes that it is unlikely that an underpayment exists.

Department's Action: Fully implemented.

The department has included a risk-based evaluation in its audit program to determine whether there is material harm to the fund and to terminate audits based on initial assessments. The department updated its current three-year audit plan to reflect this change, and its auditors received training on this risk-based process.

Recommendation 1.3—See pages 22—27 of the audit report for information on the related finding.

To avoid exceeding the statute of limitations for collecting underpayments, and to bill for collection sooner, the department should strive to complete the fieldwork for audits in a more timely fashion. Further, the department should implement policies to shorten the time needed to review completed audits before billings are made, and should also develop policies to expedite reviews when an audit identifies a significant underpayment.

Department's Action: Fully implemented.

The department indicated that its Division of Recycling Integrated Information System (DORIIS) tracks audit activity including the statute of limitations for each audit. The department provided statute of limitations training for audit staff in its investigations and audits units in December 2010.

Recommendation 1.4—See pages 27—29 of the audit report for information on the related finding.

The department should continue with its efforts to implement regulation changes that will require beverage distributors to register with the department and to notify the department if another entity has agreed to report and make payments on behalf of that beverage distributor.

Department's Action: Pending.

The department is pursuing regulatory changes to regulate reporting of agreements where an entity has agreed to make payments on behalf of that beverage distributor.

Recommendation 1.5.a—See pages 29—33 of the audit report for information on the related finding.

To improve management of its fraud investigations, the department should track all fraud leads that the investigations unit receives and track the disposition of those leads, as well as document the reasons for closing leads without an investigation.

Department's Action: Fully implemented.

The department adopted procedures for analyzing fraud tips and entering them into DORIIS for tracking and follow-up.

Recommendation 1.5.b—See pages 29—33 of the audit report for information on the related finding.

To improve management of its fraud investigations, the department should formalize the approach used to analyze recycling data for potential fraud and develop criteria for staff to use when deciding whether to refer anomalies for investigation. Because DORIIS will be a central data source for recycling activities once it is implemented, the department should continue with its plan to automate the review of recycling data within DORIIS to identify potential fraud.

Department's Action: Pending.

The department indicated that it has contracted with an outside vendor to develop statistical models for identifying patterns of program-related fraud. The department indicated that the project is scheduled to be completed in December 2011 and will be implemented thereafter.

Recommendation 1.5.c—See pages 29—33 of the audit report for information on the related finding.

To improve management of its fraud investigations, the department should continue to evaluate the effectiveness of the fraud prevention project and whether it is a cost-beneficial activity.

Department's Action: Fully implemented.

As a result of staffing constraints and implementation of DORIIS-based analytical tools to identify potential fraud, the department decided to gradually phase out the fraud prevention project as originally envisioned beginning in 2011. The department further indicated that it will continue to evaluate new procedures to improve management of its fraud investigations.

Recommendation 1.6.a—See pages 33—42 of the audit report for information on the related finding.

To improve oversight of grants and ensure that the intended value is received from the grant funds it awards, the department should perform site visits to ensure that grantees are progressing on projects as expected.

Department's Action: Fully implemented.

The department revised its grant management procedures manual regarding grantee site visit requirements and created site visit forms to document these visits.

Recommendation 1.6.b—See pages 33—42 of the audit report for information on the related finding.

To improve oversight of grants and ensure that the intended value is received from the grant funds it awards, the department should require that grantees provide regular status reports that sufficiently describe their progress toward meeting the goals of the grant.

Department's Action: Fully implemented.

The department's grant management procedures manual requires all grantees to submit periodic status reports, which includes withholding grantee payments when status reports are not current. The department also indicated that it will emphasize to staff that grantees are to submit status reports in a timely manner.

Recommendation 1.6.c—See pages 33—42 of the audit report for information on the related finding.

To improve oversight of grants and ensure that the intended value is received from the grant funds it awards, the department should more closely scrutinize the risks associated with proposed market development grants.

Department's Action: Fully implemented.

According to state law, the annual funding for market development and expansion grants will end on January 1, 2012, and the department indicated that no new funding is anticipated. Thus, the department indicated that any further review of new grants is suspended until new funding is reinstated.

Recommendation 1.6.d—See pages 33—42 of the audit report for information on the related finding.

To improve oversight of grants and ensure that the intended value is received from the grant funds it awards, the department should, for recipients of market development grants that are unable to meet the goals of their grants, maintain contact with grantees after the project is completed to determine if the goals may ultimately be achieved.

Department's Action: Pending.

The department indicated that it is committed to following up and maintaining contact with grantees that are unable to fulfill their goals. Specifically, the department developed a survey and indicated that it will be sent to grantees whose projects were closed, without the project being completed. This survey includes questions related to additional efforts to complete the project after the grant was closed, and whether or not the project goal was ultimately achieved.

Recommendation 1.6.e—See pages 33—42 of the audit report for information on the related finding.

To improve oversight of grants and ensure that the intended value is received from the grant funds it awards, the department should make determinations to approve grant extension requests in a timely manner.

Department's Action: Fully implemented.

The department implemented a review schedule to determine, at least three months prior to the end of a grant agreement, whether an extension is required.

Recommendation 1.6.f—See pages 33—42 of the audit report for information on the related finding.

To improve oversight of grants and ensure that the intended value is received from the grant funds it awards, the department should implement policies to ensure that cities and counties spend grant funds for recycling purposes by requiring periodic reporting of expenses or reporting of how funds were used after the grant ends.

Department's Action: Fully implemented.

The department developed a methodology to annually review a statistically valid sample of city and county payment programs recipients to ensure funds are appropriately utilized. Further, the department indicated it will complete this review by January 2013.

Recommendation 1.7—See pages 42—44 of the audit report for information on the related finding.

The department should weave benchmarks, coupled with metrics to measure the quality of its activities, into the strategic plan for the beverage program to allow it to better measure progress in meeting goals.

Department's Action: Pending.

The department stated that as it refines its strategic plan, relevant beverage program activities such as metrics to achieve audit plans, inspections, and enforcement objectives as well as other program activities will be incorporated along with the means to measure the quality of the outcomes.

Recommendation 1.8—See pages 42—44 of the audit report for information on the related finding.

The department should ensure that the strategic plan incorporates all relevant activities of the beverage program.

Department's Action: Pending.

The department stated that as it refines its strategic plan, relevant beverage program activities such as metrics to achieve audit plans, inspections, and enforcement objectives as well as other program activities will be incorporated along with the means to measure the quality of the outcomes.