

U.S. GLOBAL PETROLEUM

Audit Report

MOTOR OIL FEE PROGRAM

July 1, 2013, through June 30, 2016



BETTY T. YEE
California State Controller

April 2019



BETTY T. YEE
California State Controller

April 25, 2019

Karen Ross, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Dear Ms. Ross:

The State Controller's Office conducted a performance audit of U.S. Global Petroleum's California Motor Oil Fee (MOF) program. The purpose of our audit was to determine the propriety of assessed and remitted MOFs for the period of July 1, 2013, through June 30, 2016, pursuant to Title 4, *California Code of Regulations* (4 CCR), Division 9, Chapter 8, section 4305.

Our audit found that U.S. Global Petroleum did not assess and remit MOFs in accordance with 4 CCR 4305 and failed to file one quarterly return during the audit period.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Kristin Macey, Director

Fuels, Lubricants and Automotive Products Program

Division of Measurement Standards

California Department of Food and Agriculture

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Audit Report

Summary

The State Controller's Office (SCO) conducted a performance audit of U.S. Global Petroleum's California Motor Oil Fee (MOF) program. The purpose of our audit was to determine the propriety of assessed and remitted MOFs for the period of July 1, 2013, through June 30, 2016, pursuant to Title 4, *California Code of Regulations* (4 CCR), Division 9, Chapter 8, section 4305.

Our audit found that U.S. Global Petroleum did not assess and remit MOFs in accordance with 4 CCR 4305 and failed to file one quarterly return during the audit period, resulting in under-reported 54,588 gallons, or \$2,184 in MOF, plus a \$218 late fee.

Background

The MOF program is administered by the California Department of Food and Agriculture (CDFA) Division of Measurement Standards, pursuant to 4 CCR, Division 9, Chapter 8, sections 4300 through 4308. The Division of Measurement Standards is responsible for providing administrative oversight to motor oil dealers by establishing reporting and accounting guidelines for assessments and receipts. The dealers/producers are required to provide assessment reports and remit the MOFs.

The MOF is a fee paid by motor oil dealers who produce and sell motor oil products in California, regardless of whether they are packaged in retail containers. Pursuant to 4 CCR 4304, the MOF was established at four cents per gallon for the audit period. All participants are responsible for paying MOFs and are required to file returns with the CDFA on a quarterly basis (for each quarter ending September 30, December 31, March 31, and June 30). Each quarterly return includes, in part:

- Volume, in gallons, of motor oil produced, sold, or manufactured in, or imported to, California;
- Volume of MOFs paid to suppliers; and
- Net volume of MOFs subject to assessment.

The CDFA receives approximately \$4 million in MOFs from motor oil dealers annually. Approximately 200 dealers produce, sell, or distribute motor oil in California.

Objective, Scope, and Methodology

We conducted a performance audit of motor oil dealer U.S. Global Petroleum, selected by the CDFA for the MOF program assessment. The objective of our audit was to determine the propriety of assessed and remitted MOFs.

The audit period was July 1, 2013, through June 30, 2016. To achieve our objective, we:

- Assessed reporting timeliness, delinquency, penalties, and the CDFA's efforts and enforcement actions to conform to the MOF assessment and reporting requirements;

- Reviewed quarterly MOF reports, remittance advice, and other correspondence to gain an understanding of reported assessments and fees, and to identify reported anomalies with emphasis on volumes produced, volumes subject to assessment, and fees remitted;
- Gained an understanding of the dealer's organization, business model, and business components by inquiring with and observing the dealer's responsible function groups for MOF assessment to understand and evaluate effectiveness of applicable internal control, including but not limited to the accounting system, purchase and sales records, and claim preparation process; and
- Examined all accounting records and purchase and sales records to determine whether MOFs were assessed and remitted properly:
 - Gallons Reported – Sold, Imported, Purchased, or Manufactured:
Population: 11 quarterly returns, totaling \$21,859, or 546,488 gallons.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found that U.S. Global Petroleum did not assess and remit MOFs in accordance with 4 CCR 4305 and failed to file one quarterly return during the audit period, resulting in under-reported 54,588 gallons or \$2,184 in MOFs, plus a \$218 late fee, as summarized in the accompanying Schedule and described in the Finding and Recommendation section of this report.

Follow-up on Prior Audit Findings

U.S. Global Petroleum did not have any prior audits related to the objective of this report.

Views of Responsible Officials

We issued a draft report on December 28, 2018. Dean Mohammad, President and Chief Executive officer, responded by email on February 1, 2019, stating that the final report could be issued without any additional comments from U.S. Global Petroleum.

Restricted Use

This report is solely for the information and use of U.S. Global Petroleum, the CDFA, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

April 25, 2019

Schedule—
Summary of Reported and Audited Motor Oil Fees
July 1, 2013, through June 30, 2016

Cost Element	Reported Amount	Audited Amount	Audit Adjustment
Total Gallons Sold, Imported, Purchased, or Manufactured (Less: Gallons with Fee Paid to Supplier)	546,488 —	601,076 —	54,588 —
Total Gallons Assessed MOF	<u>546,488</u>	<u>601,076</u>	<u>54,588</u>
Total MOF @ \$0.04/gallon	<u>\$ 21,859</u> ¹	<u>\$ 24,043</u>	\$ 2,184
Late Fee			<u>218</u>
Total Audit Adjustment			<u>\$ 2,402</u>

¹Difference due to rounding.

Finding and Recommendation

FINDING— Failure to file Quarterly Return

During the audit period, we determined that U.S. Global Petroleum failed to file a quarterly return, as it failed to file or remit its MOFs for the quarter ending September 2015. The oil dealer failed to report assessable gallons for fiscal year 2015-16, Quarter 1, in the amount of 54,588 gallons. 4 CCR 4304 states that the dealer is to file a return with the CDFA quarterly and remit assessable gallons at \$0.04 per gallon. Additionally, 4 CCR 4307 states that for any delinquency in making a return, or any deficiency in payment, the CDFA shall add to such delinquent payment a penalty of ten percent of the amount which is due. U.S. Global Petroleum underpaid the MOF by \$2,184 and has been charged a late penalty of \$218; the total amount owed to the CDFA for MOFs is \$2,402.

Recommendation

We recommend that U.S. Global Petroleum:

- File and remit all quarterly returns by the last day of the month following each reporting period to be in compliance and in accordance with 4 CCR 4306 – Penalties; and
- Work with CDFA to remit any underpaid MOFs.

**State Controller's Office
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<http://www.sco.ca.gov>