

# **GENERAL PETROLEUM CORPORATION**

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 2, 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 General Petroleum Corporation's (GPC) 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*, Division 9, Chapter 8, section 4305.

Our audit found that GPC does not have adequate controls in place to ensure compliance with the MOF regulations. The controls are properly designed but are not adequately implemented, resulting in ineffective processing of MOF data. The assessed and remitted MOFs were improperly reported and we noted several weaknesses within the implemented MOF reporting practices, which had a significant impact. GPC over-reported 1,155,970 gallons, or \$46,238 in MOFs, due to improper MOF assessments 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

Clark Cooney, Chief, Enforcement Branch

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# Audit Report

## Summary

The State Controller's Office (SCO) conducted a performance audit of General Petroleum Corporation's (GPC) 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 GPC does not have adequate controls in place to ensure compliance with the MOF regulations. The controls are properly designed but are not adequately implemented, resulting in ineffective processing of MOF data. The assessed and remitted MOFs were improperly reported, and we noted several weaknesses within the implemented MOF reporting practices, which had a significant impact. GPC over-reported 1,155,970 gallons, or \$46,238 in MOFs, due to improper MOF assessments during the audit period.

## 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 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 GPC, 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 accounting records and purchase and sales documents on a judgmentally selected non-statistical sample basis to determine whether MOFs were assessed and remitted properly:
  - Gallons Reported – Sold, Imported, Purchased, or Manufactured:  
Sample: 101 transactions, totaling \$7,687, or 192,179 gallons.<sup>1</sup>  
Population: 5,958 transactions, totaling \$541,796, or 13,544,897 gallons.
  - Prepaid MOF:  
Sample: 60 transactions, totaling \$7,867, or 196,676 gallons.  
Population: 410 transactions, totaling \$49,341, or 1,233,537 gallons.

Errors found in the sample were not projected to the population.

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 GPC did not properly assess and remit MOFs in accordance with 4 CCR 4305. GPC over-reported 1,155,970 gallons, or \$46,238 in MOFs, during the audit period, as summarized in the accompanying Schedule (Summary of Reported and Audited Motor Oil Fees) and described in the Findings and Recommendations section of this report.

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<sup>1</sup>The sampled transactions from the listed population are for reported totals from the main manufacturing Warehouse No. 810. GPC failed to report prepaid fees for all other locations. We could not determine approximate under-reported gallons based on accounting records.

**Follow-up on  
Prior Audit  
Findings**

GPC 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. Denise Marzille, Senior Accountant, responded by email on February 1, 2019, stating that GPC agreed with the audit findings.

**Restricted Use**

This report is solely for the information and use of GPC, 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](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

April 2, 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)	13,023,508 <u>(1,233,537)</u>	11,853,259 <u>(1,219,258)</u>	(1,170,249) <u>14,279</u>
Total Gallons Assessed MOF	<u>11,789,971</u>	<u>10,634,001</u>	<u>(1,155,970)</u>
Total MOF @ \$0.04/gallon	<u>\$ 471,599</u>	<u>\$ 425,360</u>	<u>\$ (46,238)</u> <sup>1, 2</sup>

<sup>1</sup> The breakdown of the total audit adjustment is as follows:

Amount	Reference
\$ (48,770)	Finding 1
<u>2,532</u>	Finding 2
<u>\$ (46,238)</u>	

<sup>2</sup> Calculation difference due to rounding.



# Findings and Recommendations

## **FINDING 1— Improper Assessment of Reported Gallons Sold, Imported, Purchased, or Manufactured**

During the audit period, we determined that GPC under-reported 63,288 net gallons, or \$2,532 in MOFs, due to improper MOF assessments as follows:

<u>Product Type</u>	<u>Gallons Overstated/ (Understated)</u>	<u>Audit Adjustment</u>
Fee-assessable Products	118,600	\$ 4,744
Fee-exempt Products	<u>(55,312)</u>	<u>(2,212)</u>
	<u>63,288</u>	<u>\$ 2,532</u>

Based on our understanding that MOFs are assessed based on product descriptions, we judgmentally targeted products that would most likely result in an error from the 12 MOF returns during the audit period. We judgmentally selected a non-statistical sample of 101 transactions from the total of 5,958 sales transactions targeting the product criteria. These 101 selections resulted in 83 exceptions that were the result of improper MOF assessments.

As the errors identified in the sample were specifically targeted, there was no need to increase the sample size.

Due to GPC's improper assessments of MOFs, 118,600 gallons were not identified as assessable, resulting in \$4,744 in unremitted MOFs over 58 transactions. The 58 transactions involved products that met the definition of "Motor Oil" as described in 4 CCR 4300. GPC is responsible for paying \$0.04 per assessable gallon on a quarterly basis (4 CCR 4304) because it is the first motor oil dealer to produce, sell, or distribute motor oil in California (4 CCR 4302).

GPC also improperly assessed and reported exported (exempt) motor oil gallons sold to a customer, which led to our determination that GPC over-reported 55,312 gallons, or \$2,212 in MOFs, over 25 transactions. 4 CCR 4302 states the fee responsibility and exemption as follows:

- (a) The first motor oil dealer that produces, sells or distributes motor oil in California, whether or not packaged in retail containers, shall pay the fee for all such motor oil sold in California.
- (b) Motor oil exported for sale outside California is exempt from the motor oil fee.
- (c) A person assigned a Motor oil dealer Permit Number and not actively engaged in the business of producing, distributing, or selling motor oil is required to notify the Department in writing within the next reporting period upon ceasing operations dealing with motor oil.

Recommendation

We recommend that GPC:

- Implement an internal auditing function; and
- Strengthen internal controls related to the accurate reporting of motor oil gallons sold, imported, purchased, or manufactured.

**FINDING 2—  
Improper  
Assessment of  
Reported Gallons  
with Fee Paid to  
Suppliers**

During the audit period, we determined that GPC improperly recorded and reported prepaid MOFs for all warehouses during the audit period. We determined that GPC over-reported 1,219,258 net gallons, or \$48,770 in MOFs, due to its use of an inaccurate MOF reporting template format as follows:

Product Type	Gallons Overstated/ (Understated)	Audit Adjustment
Prepaid by Supplier	1,233,537	\$ 49,341
Prepaid Fees Warehouse No. 810	(14,279)	(571)
	<u>1,219,258</u>	<u>\$ 48,770</u>

Of the 410 prepaid transactions, we judgmentally selected 60 transactions to review. We did not identify any exceptions within the 60 transactions under review. We identified inaccuracies within all 12 quarterly returns, due to GPC's use of an inaccurate MOF reporting template format.

In CDFA's report template, total sales were improperly reported as Total Assessable Gallons (MOF Report Column C) because GPC failed to subtract Tax Paid Purchases (MOF Report Column B) and inflated total reported data within MOF Report Column A. As a result, GPC over-reported 1,233,537 prepaid gallons for its main Warehouse No. 810, and overpaid \$49,341 in MOFs. The 1,233,537 gallons were not properly assessed and remitted in accordance with 4 CCR 4304, with accurate and complete supporting data, nor were they reported in accordance with the standard MOF reporting instructions.

We also determined that GPC understated the reported prepaid fees for main warehouse No. 810 by 14,279 gallons, or \$571, in the reporting period ending September 30, 2015, resulting in an underpayment of \$571. 4 CCR 4304 states that, "[a] return for each quarter shall include the total amount of gallons of motor oil with fees paid to suppliers."

Moreover, we observed that GPC improperly recorded and reported prepaid MOFs for all warehouses during the audit period. We were able to accurately determine the total gallons sold, imported, purchased, or manufactured based on sales figures that traced to GPC's financial records; however, GPC did not maintain adequate records of purchases made at warehouses other than No. 810. Therefore, purchases made at those warehouses could have included MOFs prepaid by the supplier and GPC could receive a credit for those prepaid fees.

### Recommendation

We recommend that GPC:

- Implement an internal auditing function;
- Strengthen internal controls related to the accurate reporting of motor oil gallons sold, imported, purchased, or manufactured; and
- Work with CDFA to recover any overpaid MOFs.

If GPC is able to recover the missing records of prepaid MOFs at the other warehouses, it should revise its assessed and remitted MOFs for those periods to obtain credit for those fees paid by suppliers.

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