State of California

California Environmental Protection Agency

MEMORANDUM

To: Corky Mau, Branch Manager
Financial Assistance Division

Date: November 30, 2009

From: Susan R. Villa, Fiscal Services Branch Manager
Administration and Finance Division
CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

Subject: **FINAL AUDIT REPORT OF LOAN NUMBERS #2002-262, AND #2005-307**

The Audits and Evaluations Unit completed an audit of the California Integrated Waste Management Board's (Board) loan to Van Duerr Industries Inc., and Princess Paper, Inc. managed by the Financial Assistance Division. The audit was conducted in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Audits and Evaluations Unit auditor, Gladys Onejeme, reviewed loan records to verify and validate the administration and execution of the two loans. The time period audited was from January 1, 2003 through December 31, 2008.

The purpose of this audit was to determine whether the Financial Assistance Division was in compliance with the Board's Strategic Directive 10; Public Resources Code, Section 42023.4, and Title 14 of Natural Resources, Division 7, Article 1.1; and the State Loan Agreement.

The Financial Assistance Division complied with the fiscal requirements of the loan agreement. Because there were no audit findings or issues requiring a response, a final report will be issued. The enclosed report is provided for your information and use.

The Audits and Evaluations Unit appreciates the assistance and cooperation of the Financial Assistance Division staff. If you have any questions, please contact Gladys Onejeme, Staff Services Management Auditor, at (916) 324-6892 or gonejeme@ciwmb.ca.gov.

cc: James La Tanner, Supervisor-RMDZ Loan Program
Sharon Green, Regional Credit Manager
Gladys Onejeme, Staff Services Management Auditor,
Audits and Evaluations Unit
Board Audits and Evaluations Unit File

LOAN AUDIT

FINANCIAL ASSISTANCE DIVISION

Final Audit Report

For the Period January 1, 2003 through December 31, 2008

Prepared By:
California Integrated Waste Management Board
Audits and Evaluations Unit

November 2009

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AUDIT REPORT

Period Audited: January 1, 2003 through December 31, 2008

Audit Start Date:	August 17, 2009
Department/Division:	Financial Assistance Division
Contact Person:	Sharon Green, Regional Credit Manager
Phone Number:	(916) 341-6538
E-mail Address:	sgreen@ciwmb.ca.gov
Auditor:	Gladys Onejeme

SUMMARY

The Board's Audits and Evaluations Unit audited the following loans for the period of January 1, 2003 through December 31, 2008: Van Duerr Industries (Loan No. 2002-262), and Princess Paper, Inc. (No. 2005-307).

The purpose of the audit was to determine whether:

- The loans were executed by the Board in accordance with loan agreements, applicable State laws, policies, and procedures
- The loan managers provided support and fiscal oversight to ensure that loan payments were accurate and properly monitored
- Loans were executed in a manner that safeguards the interests of the Board and the State

BACKGROUND

The audit authority is based on the Board's Strategic Directive 10 (SD-10), Public Resources Code, Section 42023.4, and Title 14 of Natural Resources, Division 7, Article 1.1; and Loan Agreement. The Audits and Evaluations Unit shall audit the Board loans, claims, and payments for accuracy, legality, and sufficient provision of law. Furthermore, SD-10 requires that the Audits and Evaluations Unit conduct regular audits of the Board's fiscal processes.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit was conducted in accordance with *Government Auditing Standards*. The standards require the audit to be planned and performed to obtain sufficient and appropriate evidence. The evidence obtained provides a reasonable basis for the finding(s) and conclusion(s) based on the audit objectives.

The specific objectives of the audit were to determine whether the Board:

- Monitors loans and that all loan agreements are valid, properly authorized, and approved by responsible staff
- Follows written policies and procedures for activities related to the loan intentions and repayments
- Provides adequate separation of duties over the loaning function
- Ensures there is proper accountability of the recipients' payments

The procedures performed during the loan audit review included:

- Review of the loan agreements, laws, rules, regulations, policies and related accounting records
- Tests of procedural compliance relative to the loan payments
- Review of the Financial Integrity and State Managers Accountability Act audit report on Van Duerr Industries for Grant Agreement TR26-02-18, dated January 1, 2005, performed by the Department of Finance
- Interviews with the individuals involved in the development, authorization, and monitoring of each loan

CONCLUSION

The Board's Audits and Evaluations Unit completed the loan audits of Van Duerr Industries, loan No. 2002-262, and Princess Paper, Inc., loan No. 2005-307. Based on the audit procedures performed, the Financial Assistance Division met the fiscal requirements for the loan agreement and there were no findings. A summary of the audit results is presented below:

- During the review of the Van Duerr Industries, Inc., the Audits and Evaluations Unit determined that 13 out of 18 listed payments from December 2004 to August 2008 were not received and late charges accrued

The 13 payments were delinquent because Van Duerr Industries, Inc. experienced financial difficulties and was unable to make its scheduled principal and interest payments. During discussion with the auditee on September 24, 2009, and in e-mail correspondence with Sharon Green, Regional Credit Manager, Audits and Evaluations Unit noted that the Board tracks late charges through the loan servicing software system. Further review and e-mail from Sarah Keck, Accounting Supervisor, revealed that payments from October to December 2003 were collected by a third party contractor. The contractor then wired the money to the Board every month with remittance reports. During the exit conference, Corky Mau, Branch Manager, stated that the Board loan staff are working with Van Duerr Industries, Inc., to develop options to settle the delinquent payments. Also, the Board legal staff are aware of the delinquent payments and are working with Van Duerr Industries, Inc.

- During the review of Princess Paper, Inc., we determined that payments were made on time by tracing loan payments to Reports of Collections (ROC), payment coupons, and checks. The loan payments were timely as required by the loan agreement

RESTRICTED USE

This report is intended for the information and use of the Board, Loan Staff, and Loan Managers. However, this report is a matter of public record and distribution is not limited.