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☞ Details: Legislative Audit Bureau Report 05-16: An Audit: Petroleum Inspection Fee Revenue Obligations Program

(FORM UPDATED: 08/11/2010)

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* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

DATE: November 10, 2005

TO: Karen Asbjornson and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Bryan Naab *Bryan Naab*
Financial Audit Director

SUBJECT: Report 05-16: An Audit of the Petroleum Inspection Fee Revenue Obligations Program

Enclosed is a report on our audit of the financial statement and notes of the Petroleum Inspection Fee Revenue Obligations Program for fiscal years 2004-05 and 2003-04. The program provides financing for payment of claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. This financial audit was performed at the request of the Department of Commerce, which audits and pays PECFA claims, along with the Capital Finance Office in the Department of Administration, which issues the program's revenue bonds and commercial paper.

The audit was requested to meet certain requirements included in the State's bond covenants. The financial statement is somewhat unique because it is prepared on the cash basis, rather than in accordance with generally accepted accounting principles. The cash basis is used in order to more clearly show the financial resources available to pay debt service. We were able to provide an unqualified auditor's report on the program's Statement of Changes in Program Assets.

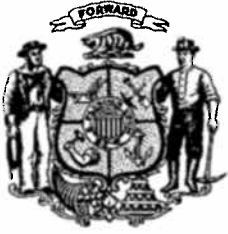
Since the inception of the program in January 2000, the State has issued \$387.6 million in revenue obligations to pay PECFA claims and to address a backlog of approved but unpaid PECFA claims. Some of the debt has already been repaid and \$348.5 million in revenue obligations were outstanding as of June 30, 2005. The obligations are not general obligation debt of the State. Instead, the revenue obligations are to be repaid from the \$0.03 per gallon fee charged to suppliers for petroleum products sold in Wisconsin and collected by the Department of Revenue.

The \$0.03 per gallon fee has been in existence since before the establishment of the revenue obligations program. However, effective May 1, 2006, that fee will be reduced to \$0.02 per gallon, as provided for in 2005 Wisconsin Act 25. Due to the per gallon fee reduction, the petroleum inspection fee revenues available to pay for debt service will decline. At least one bond rating agency – Standard and Poor's – has expressed concern over this fee reduction. Although Standard and Poor's' bond rating remains unchanged, it has revised its long-term rating outlook on the program from "stable" to "negative." The Department of Administration expects petroleum inspection fee revenues to be sufficient to fund debt service. While not discussed in the report, we note that in s. 101.143(9m)(i), Wis. Stats., the State has expressed its moral obligation to pay off the debt if petroleum inspection fees are not sufficient to do so.

The report will be released on Friday, November 11, at 9:00 a.m. If you have any questions, please contact us.

BN/km

Enclosures

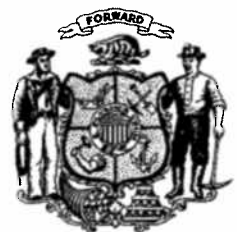


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**Report 05-16
November 2005**

An Audit

Petroleum Inspection Fee Revenue Obligations Program

2005-2006 Joint Legislative Audit Committee Members

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Robert Cowles
Scott Fitzgerald
Mark Miller
Julie Lassa

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
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LEGISLATIVE AUDIT BUREAU

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State Auditor - Janice Mueller

Audit Prepared by

Bryan Naab, Director and Contact Person
Carrie Ferguson

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Janice Mueller
State Auditor

November 11, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At the request of the departments of Commerce and Administration, and in accordance with s. 13.94(1s), Wis. Stats., we have completed a financial audit of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the fiscal years ending June 30, 2005, and June 30, 2004. We express our unqualified audit opinion on the Statement of Changes in Program Assets and related notes.

Under the Petroleum Inspection Fee Revenue Obligations Program, the State issues revenue obligations, such as bonds and commercial paper, to provide financing for payment of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) program. The obligations are not general obligation debt of the State. Instead, the revenue obligations are to be repaid primarily from the fee charged to suppliers for petroleum products sold in Wisconsin and collected by the Department of Revenue. This fee, which is established in s. 168.12(1), Wis. Stats., has been \$0.03 per gallon since before the revenue obligations program was established in January 2000, and it will remain in effect through April 30, 2006.

As provided for in 2005 Wisconsin Act 25, the petroleum inspection fee will be reduced to \$0.02 per gallon effective May 1, 2006, which will result in a decline in the petroleum inspection fee revenues available to fund debt service for the revenue obligations. While the ratings for the petroleum inspection fee revenue bonds remain unchanged, one bond rating agency recently revised its long-term rating outlook from stable to negative. Nevertheless, the Department of Administration expects that future petroleum inspection fee revenues will be sufficient to fully meet debt service requirements.

We appreciate the courtesy and cooperation extended to us during the audit by staff of the departments of Commerce, Administration, and Revenue.

Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/ss

Audit Opinion ■

Independent Auditor's Report on the Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program

We have audited the accompanying Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2005, and June 30, 2004. This financial statement is the responsibility of the program's management. Our responsibility is to express an opinion on the financial statement based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Statement of Changes in Program Assets presents only the Petroleum Inspection Fee Revenue Obligations Program and does not purport to, and does not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 2, to provide a meaningful presentation to bondholders and noteholders regarding resources available to pay debt service, the program's policy is to prepare its financial statement on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement of Changes in Program Assets presents fairly, in all material respects, the Petroleum Inspection Fee Revenue Obligations Program's assets as of June 30, 2005, and June 30, 2004, and the program's receipts and disbursements for the fiscal years then ended, on the cash basis of accounting.

Our audits were conducted for the purpose of forming an opinion on the Statement of Changes in Program Assets of the Petroleum Inspection Fee Revenue Obligations Program. The supplementary information included as Management's Discussion and Analysis on pages 5 through 10 is presented for purposes of additional analysis and is not a required part of the Statement of Changes in Program Assets. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the supplementary information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2005, on our consideration of the program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

November 8, 2005

LEGISLATIVE AUDIT BUREAU

by 

Bryan Naab
Audit Director