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☞ Details: Legislative Audit Bureau Report 08-14: An Audit: Petroleum Inspection Fee Revenue Obligations Program

(FORM UPDATED: 08/11/2010)

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2007-08

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STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

DATE: November 24, 2008

TO: Nicole Hudzinski and Diane Handrick
Committee Clerks to the Joint Legislative Audit Committee

FROM: Bryan Naab *Bryan Naab*
Deputy State Auditor for Financial Audit

SUBJECT: Report 08-14: 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 2007-08 and 2006-07. 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, and the Capital Finance Office in the Department of Administration, which issues the program's revenue bonds and extendible municipal commercial paper. In addition, the Department of Revenue is responsible for collecting petroleum inspection fees, which are initially deposited to the Transportation Fund and subsequently transferred to the program's trustee.

The audit was requested to meet certain requirements included in the State's bond covenants. The financial statement 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.

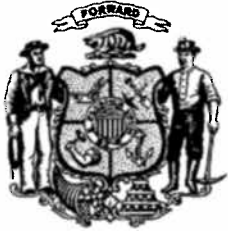
Since the inception of the program in January 2000, the State has issued \$387.6 million in revenue obligations to pay PECFA claims and to address a backlog of approved but unpaid PECFA claims. Some of the debt has already been repaid and \$252.3 million in revenue obligations were outstanding as of June 30, 2008. The obligations are not general obligation debt of the State. Instead, the obligations are to be repaid from a \$0.02 per gallon fee charged suppliers of petroleum products sold in Wisconsin.

The \$0.02 per gallon fee will likely need to be continued until the revenue obligations are fully repaid. The year the debt will be fully repaid is dependent on the actual amount of petroleum inspection fees collected and whether these fees are used for purposes in addition to paying debt service. For example, during FY 2007-08, \$20.3 million in inspection fees were transferred to the Transportation Fund, rather than used to pay off debt early.

The report will be released on Tuesday, November 25th, at 9:00 a.m. If you have any questions, please contact us.

BN/bm

Enclosures

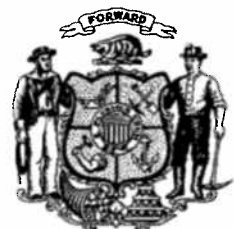


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**Report 08-14
November 2008**

An Audit

Petroleum Inspection Fee Revenue Obligations Program

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CONTENTS

Letter of Transmittal	1
Audit Opinion	3
Independent Auditor's Report on the Statement of Changes in Program Assets of the State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program	
Management's Discussion and Analysis	5
Financial Statement	
Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2008 and 2007	13
Notes to the Statement of Changes in Program Assets	15
Report on Control and Compliance	25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	



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Janice Mueller
State Auditor

November 25, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan 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, 2008, and June 30, 2007. We express our unqualified audit opinion on the Statement of Changes in Program Assets and related notes.

Under the program, the State has issued revenue obligations, such as bonds and commercial paper, to provide financing for payment of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) program. These revenue obligations are not general obligation debt of the State. Instead, they are to be repaid primarily from the \$0.02 per gallon fee charged to suppliers of petroleum products sold in Wisconsin, which is collected by the Department of Revenue.

During fiscal year (FY) 2007-08, the State collected \$76.6 million in petroleum inspection fees and made \$30.4 million in scheduled debt service payments, including \$20.3 million in principal repayment and \$10.1 million in interest. As of June 30, 2008, a total of \$252.3 million in revenue obligations remained outstanding, to be repaid from future petroleum inspection fees.

Petroleum inspection fees in excess of debt service requirements are deposited to the Petroleum Inspection Fund and are used to pay PECFA claims and for other purposes authorized by the Legislature, including the early redemption of petroleum inspection fee revenue obligations. During FY 2007-08, \$47.0 million in inspection fees was deposited to the Petroleum Inspection Fund while \$16.8 million in PECFA claims was paid from the Fund. The remaining \$30.2 million was used for a variety of purposes, including a \$20.3 million transfer authorized by the Legislature to the Transportation Fund, as well as \$1.0 million in transfers to the General Fund to help meet lapse requirements included in 2007 Wis. Acts 20 and 226.

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

Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/ss