



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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# Michigan *Office of the Auditor General* **REPORT SUMMARY**

## *Performance Audit*

Report Number:  
761-0115-13

## *Refined Petroleum Fund Expenditures*

*Department of Environmental Quality,  
Michigan Department of Agriculture and Rural  
Development, and Department of Treasury*

Released:  
May 2013

*The Refined Petroleum Fund (RPF) was created in 2004 by Section 21506a(1), Act 390, P.A. 2004. RPF was established to fund gasoline inspection programs and corrective actions related to releases of refined petroleum products from leaking underground storage tanks. From fiscal year 2004-05 through fiscal year 2011-12, RPF expenditures totaled \$381.2 million. This audit was required by Section 324.21506a(6) of the Michigan Compiled Laws.*

### ***Audit Objective:***

To assess the Department of Environmental Quality's (DEQ's), the Michigan Department of Agriculture and Rural Development's (MDARD's), and the Department of Treasury's compliance with laws and regulations for expenditures from RPF.

### ***Audit Conclusion:***

We concluded that DEQ, MDARD, and the Department of Treasury partially complied with laws and regulations for expenditures from RPF. We noted three reportable conditions (Findings 1 through 3) and one observation (Observation 1).

### ***Reportable Conditions:***

DEQ did not expend \$31.8 million of RPF funds during our audit period in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws* (Finding 1).

MDARD had not established effective controls to ensure that all uses of RPF funds were in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws* (Finding 2).

RPF funds appropriated and expended for the payment of Quality of Life bonds and Clean Michigan Initiative bonds did not meet the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws* (Finding 3).

### ***Observation:***

Our review resulted in one observation related to the Refined Petroleum Cleanup Advisory Council (Observation 1).

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### ***Agency Response:***

Our audit report contains 3 findings and 3 corresponding recommendations.

DEQ's preliminary response indicates that it does not express agreement or disagreement with Finding 1. MDARD's preliminary response indicates that it partially agrees with Finding 2. The Department of Treasury's preliminary response indicates that it disagrees with Finding 3.

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Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

May 17, 2013

Mr. Dan Wyant, Director  
Department of Environmental Quality  
Constitution Hall  
Lansing, Michigan  
and  
Ms. Jamie Clover Adams, Director  
Michigan Department of Agriculture and Rural Development  
Constitution Hall  
Lansing, Michigan  
and  
Mr. Andy Dillon, State Treasurer  
Department of Treasury  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Wyant, Ms. Clover Adams, and Mr. Dillon:

This is our report on the performance audit of Refined Petroleum Fund (RPF) Expenditures, Department of Environmental Quality, Michigan Department of Agriculture and Rural Development, and Department of Treasury.

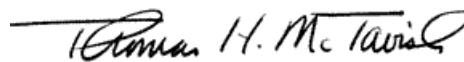
This report is issued pursuant to Section 324.21506a(6) of the *Michigan Compiled Laws*, which states that the Office of the Auditor General shall conduct an audit of expenditures from RPF.

This report contains our report summary; description of fund; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, agency preliminary responses, and observation; four exhibits, presented as supplemental information; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

  
Thomas H. McTavish, C.P.A.  
Auditor General



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DEPARTMENT OF ENVIRONMENTAL QUALITY,  
MICHIGAN DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT, AND  
DEPARTMENT OF TREASURY**

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## Description of Fund

The Michigan Underground Storage Tank Financial Assurance Act (MUSTFA) was enacted in 1988 with Act 518, P.A. 1988, to assist owners and operators of leaking underground storage tanks with the cost of corrective actions\*. Between 1986 and 2010, over 21,800 releases\* from underground storage tanks had been reported or discovered in tanks storing petroleum\* products. The releases had the potential to affect groundwater quality near and around the release site. Owners and operators of leaking underground storage tanks submitted claims to the Department of Environmental Quality (DEQ) to recover a part of the cost of cleaning up the leaking tanks. Exhibit 1 presents a map of the remaining 7,154 leaking underground storage tank sites as of April 25, 2013. The cost to clean up the remaining sites is estimated at \$400,000 per site. DEQ stopped accepting applications for claims on June 29, 1995 because the MUSTFA Fund was declared insolvent as revenues could not keep up with the number of claims. A regulatory fee of 7/8 of a cent per gallon of refined petroleum\* products sold for resale or consumption in the State of Michigan was dedicated to the MUSTFA Fund and was collected even after the MUSTFA Fund was declared insolvent. The Department of Treasury used the revenue accrued in the MUSTFA Fund to pay off remaining MUSTFA bond debt. The balance of the MUSTFA Fund was transferred to the Refined Petroleum Fund (RPF).

RPF was created in 2004 by Section 21506a(1), Act 390, P.A. 2004 (Section 324.21506a(1) of the *Michigan Compiled Laws*). RPF was established to fund gasoline inspection programs and corrective actions related to releases of refined petroleum products from leaking underground storage tanks. The primary source of revenue for RPF is the regulatory fee of 7/8 of a cent per gallon of refined petroleum products sold. RPF funds are invested by the State Treasurer with the interest and earnings being credited to RPF. Money remaining in RPF at the close of the fiscal year does not lapse to the State's General Fund.

RPF funds are appropriated to DEQ, the Michigan Department of Agriculture and Rural Development (MDARD), and the Department of Treasury. From fiscal year 2004-05

\* See glossary at end of report for definition.

through fiscal year 2011-12, RPF expenditures totaled \$381.2 million. Expenditures for each fiscal year and in total by department were as follows:

Fiscal Year	DEQ	MDARD	Department of Treasury	Total
2004-05	\$ 11,305,214	\$ 2,038,898	\$ 23,914,500	\$ 37,258,613
2005-06	17,214,589	3,409,145	23,914,500	44,538,234
2006-07	19,080,392	3,233,181	23,914,500	46,228,072
2007-08	28,396,966	4,028,857	23,914,500	56,340,323
2008-09	38,509,985	3,512,690	15,514,500	57,537,174
2009-10	30,788,957	3,467,896	15,514,500	49,771,352
2010-11	24,508,976	3,769,110	15,514,500	43,792,585
2011-12	26,297,069	3,906,610	15,514,500	45,718,179
Total	<u>\$196,102,147</u>	<u>\$27,366,386</u>	<u>\$157,716,000</u>	<u>\$381,184,533</u>

Exhibit 2 presents detailed RPF expenditures for each department by fiscal year. Exhibit 3 presents pie charts of RPF expenditures by department.

Section 21506a(5), Act 67, P.A. 2007, transferred \$70 million of RPF funding from RPF to the Environmental Protection Fund. Section 221, Act 189, P.A. 2010, which made appropriations to DEQ for the fiscal year ended September 30, 2011, stated that it is the intent of the Legislature that, in fiscal years subsequent to the year ended September 30, 2011, RPF funds shall be used solely for purposes directly related to leaking underground storage tanks, as originally intended. Further, Section 405, Act 189, P.A. 2010, stated that it is the intent of the Legislature to repay RPF for the \$70 million that was transferred from RPF to the Environmental Protection Fund as part of the resolution for the fiscal year 2006-07 budget.

### DEQ

Within DEQ, RPF is administered by the Remediation and Redevelopment Division to assist in the cleanup of sites contaminated with releases of refined petroleum and refined petroleum products and for administrative costs necessary and reasonable in administering RPF and implementing the programs funded with RPF. DEQ also received appropriations from RPF to fund various programs within the Water Resources Division, the Air Quality Division, and the Environmental Resource Management Division.

### MDARD

MDARD uses RPF to fund gasoline inspection programs and necessary administrative costs within the Weights and Measures Program and the Motor Fuel Quality Program.

### Department of Treasury

In November 1988, Michigan voters approved the issuance of Quality of Life bonds\* in the amount of \$660 million. In November 1998, Michigan voters approved the issuance of Clean Michigan Initiative (CMI) bonds\* in the amount of \$675 million. These general obligation bonds were issued to finance environmental protection programs to clean up environmental contamination and address water quality problems. The Department of Treasury received appropriations and expended RPF funds for debt service payments for the Quality of Life bonds and CMI bonds.

\* See glossary at end of report for definition.

## Audit Objective, Scope, and Methodology and Agency Responses

### Audit Objective

The objective of our performance audit\* of Refined Petroleum Fund (RPF) Expenditures was to assess the Department of Environmental Quality's (DEQ's), the Michigan Department of Agriculture and Rural Development's (MDARD's), and the Department of Treasury's compliance with laws and regulations for expenditures from RPF.

### Audit Scope

Our audit scope was to examine the program and other records of the Refined Petroleum Fund. 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 conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. Our audit procedures, conducted from January through March 2013, covered the period October 1, 2004 through September 30, 2012.

As part of our audit, we compiled supplemental information about RPF based on information obtained from DEQ's Web site (Exhibits 1 and 4) and the Michigan Administrative Information Network\* (MAIN) (Exhibits 2 and 3). Our audit was not directed toward expressing a conclusion on this information and, accordingly, we express no conclusion on it.

### Audit Methodology

We conducted a preliminary review of DEQ's, MDARD's, and the Department of Treasury's operations related to RPF to gain an understanding of RPF activities and formulate a basis for defining the audit objective and scope of the audit. Our review included interviewing department staff; reviewing applicable laws, regulations, policies, procedures, and other reference materials; and reviewing selected files, records, and reports.

\* See glossary at end of report for definition.

To accomplish our audit objective, we interviewed staff from each department to obtain an understanding of RPF processes and procedures for administering the fund. We reviewed applicable expenditure criteria included in the *Michigan Compiled Laws* and appropriations acts. We tested random and judgmental expenditure samples from each department during the audit period and assessed the departments' compliance with the laws and regulations for RPF expenditures.

### Agency Responses

Our audit report contains 3 findings and 3 corresponding recommendations. DEQ's preliminary response indicates that it does not express agreement or disagreement with Finding 1. MDARD's preliminary response indicates that it partially agrees with Finding 2. The Department of Treasury's preliminary response indicates that it disagrees with Finding 3.

The agency preliminary response that follows each recommendation in our report was taken from the agencies' written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DEQ, MDARD, and the Department of Treasury to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

COMMENT, FINDINGS, RECOMMENDATIONS,  
AGENCY PRELIMINARY RESPONSES,  
AND OBSERVATION

## **COMPLIANCE WITH LAWS AND REGULATIONS FOR EXPENDITURES FROM THE REFINED PETROLEUM FUND (RPF)**

### **COMMENT**

**Background:** Section 324.21504 of the *Michigan Compiled Laws* states that the purpose of RPF is to "address certain problems associated with releases from petroleum underground storage tank systems." Section 324.21506a(4) of the *Michigan Compiled Laws* defines the purposes for which money from RPF shall be expended. Those purposes are:

- a. For gasoline inspection programs under the Weights and Measures Act, Act 283, P.A. 1964, as amended (Sections 290.601 - 290.634 of the *Michigan Compiled Laws*), and the Motor Fuels Quality Act, Act 44, P.A. 1984, as amended (Sections 290.641 - 290.650d of the *Michigan Compiled Laws*).
- b. For the Refined Petroleum Product Cleanup Initial Program\* and for the Department of Environmental Quality's (DEQ's) administrative costs associated with the Temporary Reimbursement Program\*.
- c. For implementation of the Temporary Reimbursement Program.
- d. For corrective actions necessary to address releases of refined petroleum products under a refined petroleum product cleanup program established by law.
- e. For the reasonable administrative costs of DEQ, the Michigan Department of Agriculture and Rural Development (MDARD), the Department of Attorney General, and the Department of Treasury in administering RPF and implementing the programs receiving revenue from RPF.

In addition, Section 221, Act 189, P.A. 2010, stated that it is the intent of the Legislature that, in fiscal years subsequent to the year ended September 30, 2011, RPF funds shall be used solely for purposes directly related to leaking underground storage tanks, as originally intended, which are identified in parts a. through e. above.

\* See glossary at end of report for definition.

**Audit Objective:** To assess DEQ's, MDARD's, and the Department of Treasury's compliance with laws and regulations for expenditures from RPF.

**Audit Conclusion:** We concluded that DEQ, MDARD, and the Department of Treasury partially complied with laws and regulations for expenditures from RPF. Our assessment disclosed three reportable conditions\* related to DEQ expenditures, MDARD expenditures, and general obligation bond payments (Findings 1 through 3). In addition, our assessment resulted in one observation\* related to the Refined Petroleum Cleanup Advisory Council (Observation 1).

## **FINDING**

### **1. DEQ Expenditures**

DEQ did not expend \$31.8 million of RPF funds during our audit period in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*. As a result, less funds were available for the original purposes of RPF, which were remediation activities related to leaking underground storage tanks.

Section 324.21506a(4)(d) of the *Michigan Compiled Laws* states that RPF funds shall be expended on "corrective actions necessary to address releases of refined petroleum products."

DEQ informed us that, because of a projected shortfall in General Fund revenue in the fiscal year 2004-05 budget development cycle, it was required to identify programs for which RPF funds potentially could be used based on a tie to established environmental regulatory programs related to the use of refined petroleum products. DEQ identified seven programs that potentially could use RPF funds as part of addressing the projected shortfall in General Fund revenue.

Subsequently, DEQ was appropriated and expended RPF funds for the following seven programs: the Air Quality Program, Drinking Water and Environmental Health Program, Fish Contaminant Monitoring Program, Underground Storage Tank Program\*, Aboveground Storage Tank Program, Grants to Counties - Air Pollution Program, and Surface Water Program. However, expenditures for the

\* See glossary at end of report for definition.



programs did not directly relate to a specific corrective action for addressing releases of petroleum from underground storage tank systems in accordance with Section 324.21506a(4)(d). The following table identifies the expenditures from RPF funds for each of the seven programs from fiscal year 2004-05 through fiscal year 2011-12:

Name of DEQ Program	Expenditures From RPF Funds for the Seven Programs
Air Quality Program	\$21,883,391
Drinking Water and Environmental Health Program	3,758,155
Fish Contaminant Monitoring Program	2,508,514
Underground Storage Tank Program	1,811,863
Aboveground Storage Tank Program	687,101
Grants to Counties - Air Pollution Program	631,860
Surface Water Program	523,117
Total	\$31,804,002

DEQ expended \$196.1 million of RPF funds from fiscal year 2004-05 through fiscal year 2011-12. The \$31.8 million of expenditures for the seven programs was 16% of DEQ's total RPF expenditures (see Exhibit 3).

## **RECOMMENDATION**

We recommend that DEQ expend RPF funds in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*.

## **AGENCY PRELIMINARY RESPONSE**

DEQ does not express agreement or disagreement with this finding. DEQ spent RPF funds from fiscal year 2004-05 through fiscal year 2011-12 in accordance with the appropriations acts approved by the Legislature and signed by the Governor during that time frame. The funds were used to fulfill statutory requirements of DEQ to support programs that minimize adverse impacts on human health and the environment. For example, DEQ is responsible for air quality monitoring, new source review permitting, and enforcement. The statutory responsibility for the Air Quality Program is contained in Part 55 of the Natural Resources and

Environmental Protection Act (Sections 324.5501 - 324.5542 of the *Michigan Compiled Laws*) and in the *Michigan Administrative Code* rules promulgated under authority given in Section 324.5512 of the *Michigan Compiled Laws* (*Michigan Administrative Code* R 336.1101 - R 336.2908). DEQ will continue discussions with the Legislature, stakeholders, and the State Budget Office on funding options to support statutory requirements associated with the programs identified in the audit finding.

## **FINDING**

### **2. MDARD Expenditures**

MDARD had not established effective controls to ensure that all uses of RPF funds were in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*. As a result, MDARD improperly charged at least \$88,000 of expenditures unrelated to gasoline inspection programs to RPF during our audit period.

Our review of a sample of RPF expenditures incurred by MDARD disclosed:

- a. MDARD overallocated a portion of in-State travel expenditures to RPF. MDARD's Weights and Measures Program is responsible for performing inspections of motor fuel pumps as well as weighing and measuring devices used by retailers. MDARD informed us that it charged all in-State travel expenditures for Weights and Measures Program staff to RPF. Based on discussions with MDARD staff and supporting documentation of the inspections conducted, we determined that 95% of the inspections conducted related to motor fuel pumps and 5% related to other weighing and measuring devices. Therefore, 5% of in-State travel expenditures for the Weights and Measures Program should not have been charged to RPF. As a result, \$68,239 was overallocated to RPF from fiscal year 2004-05 through fiscal year 2011-12.
- b. In fiscal years 2009-10 and 2010-11, MDARD issued grants from RPF funds in the amounts of \$6,657 and \$11,025, respectively, to the Michigan Weights and Measures Association for a training and professional development scholarship fund. A grant to a professional association for a training and professional

development scholarship fund did not meet the defined purposes of RPF and did not constitute reasonable administrative expenses.

Further review of the Michigan Weights and Measures Association grants disclosed that the Association used grants to reimburse eight MDARD employees for attending out-of-State conferences. By using the grants, MDARD circumvented State travel restrictions and out-of-State travel limits. Executive Directive No. 2007-19 (extended with Executive Directive No. 2007-21) prohibited out-of-State travel until further notice unless legally mandated, necessary to protect the health and safety of Michigan citizens, or necessary to produce budgetary savings. In November 2009, out-of-State travel was allowed as long as it was approved by the department director and met certain conditions, specifically that out-of-State travel costs did not exceed travel limits.

MDARD informed us that issuing the grants to the Michigan Weights and Measures Association was necessary because the Laboratory Division had exceeded its travel limits and Weights and Measures Program staff required more travel than what these limits allowed.

- c. MDARD used \$2,160 of RPF funds for equipment repairs on a motorized weight cart not used for gasoline inspections. The weight cart was used for heavy duty weights and measures inspections unrelated to gasoline inspections. Therefore, MDARD should have paid this repair from another source, such as weights and measures regulation fees.
- d. MDARD did not appropriately allocate RPF funds for Constitution Hall rent expense. As a result, RPF overpaid for its portion of Constitution Hall rent.

MDARD used RPF funds to pay \$257,200 of the total Constitution Hall rent in fiscal years 2010-11 and 2011-12. This amount equaled 26.1% and 27.7% of the total rent charges of \$986,992 and \$929,694 in fiscal years 2010-11 and 2011-12, respectively.

MDARD allocated Constitution Hall rent to MDARD divisions based on the number of division staff working in Constitution Hall. However, MDARD staff

who work on RPF programs are primarily located in laboratories and other buildings outside of Constitution Hall. Although it is appropriate for MDARD to allocate to RPF a share of the cost of administrative staff located in Constitution Hall (37 in fiscal year 2010-11 and 26 in fiscal year 2011-12), MDARD charged more than the appropriate share to RPF. Based on MDARD's rent allocation methodology, RPF was charged the equivalent of 59 staff in fiscal year 2010-11 and 56 staff in fiscal year 2011-12.

MDARD indicated that, prior to fiscal year 2010-11, it used this same method to allocate rent. Therefore, MDARD may have inappropriately allocated rent to RPF from fiscal year 2004-05 through fiscal year 2009-10.

### **RECOMMENDATION**

We recommend that MDARD establish effective controls to ensure that all uses of RPF funds are in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*.

### **AGENCY PRELIMINARY RESPONSE**

MDARD partially agrees with the finding.

With regard to part a., MDARD disagrees that \$68,239 was overallocated to RPF during fiscal year 2004-05 through fiscal year 2011-12. The Weights and Measures Program is funded by two funds, with RPF being one of them. MDARD believes that pulling out a particular segment of overall spending (travel) and calculating the 95% and 5% device inspection rate splits is not reasonable. MDARD also believes that one segment/one fund does not give a true picture of expenditures for the program and/or the RPF fund. MDARD informed us that, between fiscal year 2004-05 and fiscal year 2011-12, only 93% of actual Weights and Measures Program expenditures were charged to RPF, which means that, for a program that expended \$11.9 million over 8 fiscal years, there was \$245,827 less charged to RPF than had MDARD charged a full 95% of the Weights and Measures Program expenditures to RPF for gasoline related inspections.

With regard to part b., MDARD disagrees that this grant did not meet the purposes of RPF and thus was not a reasonable administrative expense. This travel grant was for the American Society for Testing and Materials gasoline conference and

the National Conference on Weights and Measures annual conference. MDARD stated that, as determined by the auditors, expenditures at the conferences were determined to be allowable expenses. MDARD informed us that conference attendance was mandatory in order to maintain necessary certification to perform inspection tasks.

MDARD agrees with part c. of the finding and informed us that it would comply.

With regard to part d., MDARD informed us that the appropriation for rent is determined by the State Budget Office and is expended accordingly. Within boilerplate of MDARD's appropriations acts, MDARD was not given guidance on how RPF funds for rent were to be used. MDARD informed us that RPF funding was increased to replace the State service fees.

#### **OFFICE OF THE AUDITOR GENERAL EPILOGUE**

In the agency preliminary response for part a., MDARD stated that it charged \$245,827 less to RPF than had it charged a full 95% of the Weights and Measures Program to RPF for all gasoline related expenditures. Our sample of RPF expenditures within the Weights and Measures Program identified that MDARD improperly charged in-State travel expenditures to RPF, as reported in the finding. Our RFP sample did not include all Weights and Measures Program expenditures; therefore, we cannot opine on the accuracy of MDARD's assertion regarding the amount of expenditures charged to the Weights and Measures Program in total.

In regard to the agency preliminary response for part b., we agree that RPF expenditures for training and professional development would be considered allowable administrative expenses. However, this finding is the result of RPF expenditures for the issuance of a grant to a professional association to establish a scholarship fund, which is not an allowable use of RPF funds as defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*. Furthermore, MDARD issued the grant to circumvent State travel restrictions.

## **FINDING**

### **3. General Obligation Bond Payments**

RPF funds appropriated and expended for the payment of Quality of Life bonds and Clean Michigan Initiative (CMI) bonds did not meet the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*. From fiscal year 2004-05 through fiscal year 2011-12, the Department of Treasury was appropriated and expended \$157.7 million of RPF funds to pay general obligation bonds.

In November 1988, Michigan voters approved the issuance of Quality of Life bonds in the amount of \$660 million. In November 1998, Michigan voters approved the issuance of CMI bonds in the amount of \$675 million. When RPF was created in fiscal year 2004-05, the law did not specify that RPF funds should be used to pay for the bonds.

The following amounts were appropriated and expended from RPF for payment of Quality of Life bonds and CMI bonds:

Fiscal Year	Amount Appropriated and Expended for		Total
	Quality of Life Bonds	CMI Bonds	
2004-05	\$ 20,341,000	\$ 3,573,500	\$ 23,914,500
2005-06	20,341,000	3,573,500	23,914,500
2006-07	20,341,000	3,573,500	23,914,500
2007-08	20,341,000	3,573,500	23,914,500
2008-09	15,514,500		15,514,500
2009-10	15,514,500		15,514,500
2010-11	15,514,500		15,514,500
2011-12	15,514,500		15,514,500
Total	\$143,422,000	\$14,294,000	\$157,716,000

Although the Department of Treasury received annual appropriations from RPF to make debt service payments on the bonds, the appropriations acts conflicted with Section 324.21506a(4) of the *Michigan Compiled Laws* because debt service on bonds was not one of the purposes specified in the law for which RPF funds could be expended. Therefore, without an amendment to Section 324.21506a(4) of the *Michigan Compiled Laws* to allow the payment of debt service on bonds, it was not appropriate for debt service payments to be made from RPF.

## **RECOMMENDATION**

We recommend that RPF funds be appropriated and expended in accordance with the purposes defined in Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*.

## **AGENCY PRELIMINARY RESPONSE**

The Department of Treasury disagrees with the finding. The Department utilized RPF funds for the payment of debt service, as appropriated by the Legislature, signed by the Governor, and enacted into Michigan law over a 10-year period. The Department believes that Act 259, P.A. 1982, supersedes Section 324.21506a(4) of the *Michigan Compiled Laws*. Act 259, P.A. 1982 (specifically, Section 12.62 of the *Michigan Compiled Laws*), states:

It shall be the duty of the state treasurer to pay or cause to be paid the principal of and interest on all obligations of this State as the same become due from any money or revenue pledged therefor or from any other state money or revenue under the control or custody of the state treasurer other than retirement funds, trust and agency funds, bond proceeds funds, debt service funds, restricted gifts and grants, or revenue restricted by the state constitution of 1963 for other purposes . . . .

Pursuant to Act 259, P.A. 1982, the Department believes that it was justified in using RPF funds for the payment of debt service.

The finding suggests that the Department seek an amendment to Section 324.21506a(4) of the *Michigan Compiled Laws* to allow payment of debt service from RPF. It is the Department's position that DEQ has ownership of RPF and it would be incumbent upon DEQ, in conjunction with the State Budget Office, to seek any amendments to the RPF language.

## **OFFICE OF THE AUDITOR GENERAL EPILOGUE**

Absent a formal Attorney General Opinion, we maintain our position that expenditures for the purposes of debt service are not in compliance with Sections 324.21501 - 324.21563 of the *Michigan Compiled Laws*.

## **OBSERVATION**

### **1. Refined Petroleum Cleanup Advisory Council**

The Refined Petroleum Cleanup Advisory Council was created by Section 21552, Act 390, P.A. 2004 (Section 324.21552 of the *Michigan Compiled Laws*). Council members were appointed by the Senate Majority Leader, the Speaker of the House of Representatives, and the Governor. The purpose of the Council was to evaluate and make recommendations for a refined petroleum cleanup program that provides for corrective actions to address releases of refined petroleum products. The recommended refined petroleum cleanup program was to benefit owners and operators of leaking underground storage tanks and provide for corrective actions at locations for which an owner or operator liable for corrective actions had not been identified or was insolvent. The Council was also charged with making recommendations regarding an appropriate limitation on administrative costs under Section 324.21506a(4)(c) of the *Michigan Compiled Laws*.

The Council was required to submit a report to the Governor and the Legislature by April 1, 2005 with its recommendations. Although the Council prepared a draft report dated December 31, 2006, it did not finalize or submit the draft report. The lack of the Council's final recommendations for a refined petroleum cleanup program may have contributed to the appropriation and expenditure of RPF funds for purposes other than those allowed by Section 324.21506a(4) of the *Michigan Compiled Laws* as noted in this report (Findings 1 through 3). Effective December 31, 2006, Section 324.21552 of the *Michigan Compiled Laws*, which created the Refined Petroleum Cleanup Advisory Council, was repealed.

Effective May 1, 2012, Section 324.21506a(5) of the *Michigan Compiled Laws* (Act 113, P.A. 2012) required DEQ to establish the Underground Storage Tank System Cleanup Advisory Board consisting of owners and operators of underground storage tank systems\* and others with knowledge and expertise. Similar to the Refined Petroleum Cleanup Advisory Council, the Board was required to submit a report to the Legislature with recommendations for a cleanup program, funded with money from RPF, which would assist owners and operators in financing corrective actions required under Sections 324.21301 - 324.21334 of *Michigan Compiled Laws*. During our audit fieldwork, in March 2013, the Board issued its report. Exhibit 4 contains the executive summary of the Underground Storage Tank System Cleanup Advisory Board Report.

\* See glossary at end of report for definition.



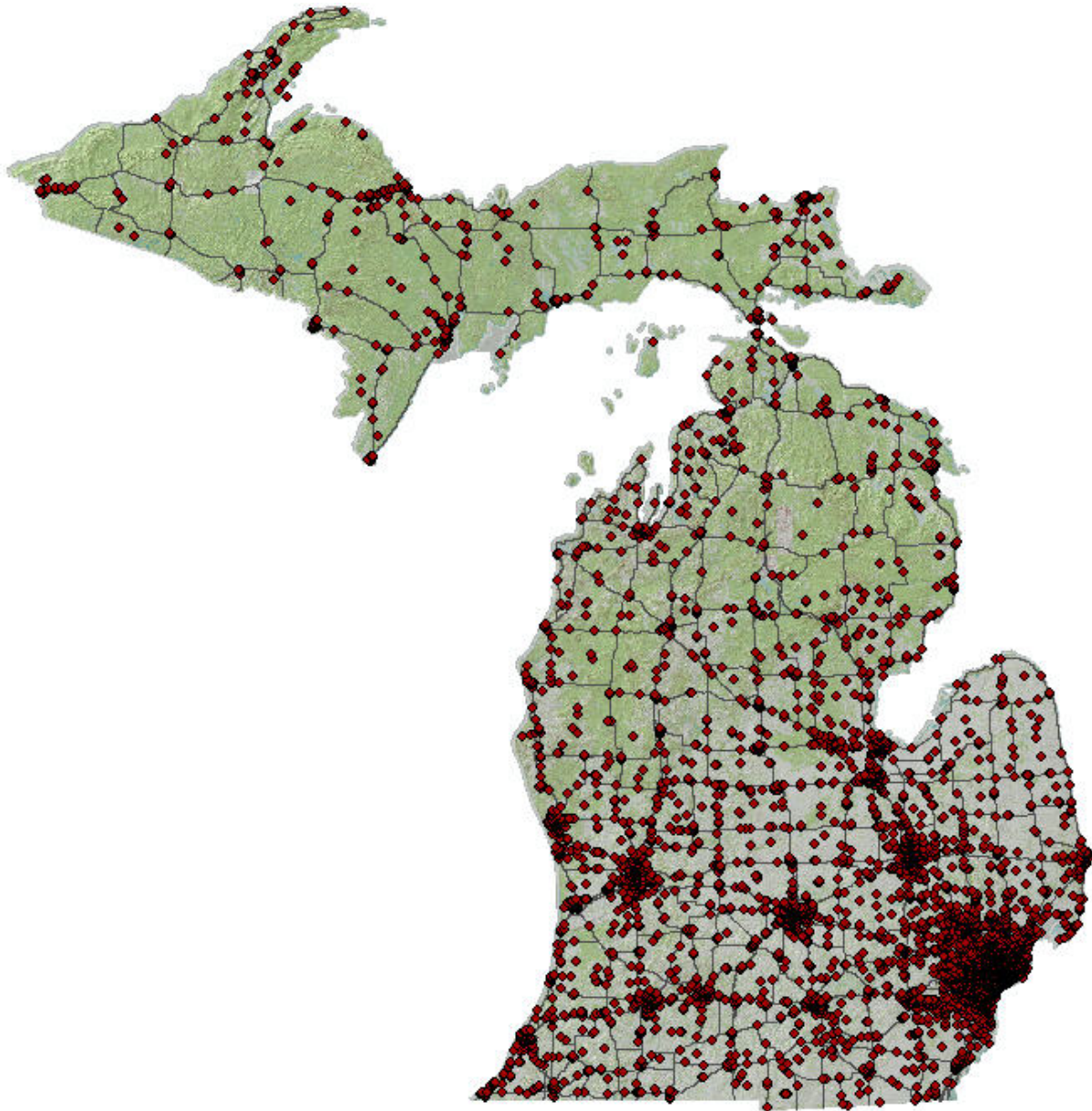
## SUPPLEMENTAL INFORMATION

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REFINED PETROLEUM FUND EXPENDITURES

Department of Environmental Quality (DEQ),  
Michigan Department of Agriculture and Rural Development, and Department of Treasury

Map of Leaking Underground Storage Tank Sites  
As of April 25, 2013



Each red diamond represents an open leaking underground storage tank site.

Source: DEQ Storage Tank Information Database.

**REFINED PETROLEUM FUND (RPF) EXPENDITURES**

Department of Environmental Quality,  
Michigan Department of Agriculture and Rural Development, and Department of Treasury

RPF Expenditures for Each Department by Fiscal Year  
For Fiscal Years 2004-05 Through 2011-12

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
<b><u>Department of Environmental Quality</u></b>				
Executive direction:				
Payroll	\$ 165,434	\$ 171,785	\$ 216,307	\$ 167,151
Nonpayroll:				
Travel related and uniforms	\$ 5,432	\$	\$ 636	\$ 2,885
Contractual services	27,431	29,675	737	27,788
Supplies and materials	4,652			5,100
Grants and distributions				
Building rentals/lease payments				
Equipment rentals/lease payments	313			
Miscellaneous other expenses	5,156	17,040		3
Total nonpayroll	\$ 42,984	\$ 46,715	\$ 1,373	\$ 35,775
Total executive direction	\$ 208,418	\$ 218,500	\$ 217,680	\$ 202,925
Central operations:				
Payroll	\$ 1,103,708	\$ 1,687,792	\$ 1,799,138	\$ 1,326,774
Nonpayroll:				
Travel related and uniforms	\$ 20,628	\$ 123	\$ 8,099	\$
Contractual services	81,672	15,629	47,010	28
Supplies and materials	10,186		20,787	
Building rentals/lease payments	2,329			
Equipment rentals/lease payments	3,674			
Miscellaneous other expenses	5,284	25,685	53	
Total nonpayroll	\$ 123,772	\$ 41,438	\$ 75,949	\$ 28
Total Central operations	\$ 1,227,481	\$ 1,729,229	\$ 1,875,087	\$ 1,326,803
Human resources optimization user charges	\$	\$	\$ 2,481	\$ 3,314
Internal audit services	\$	\$	\$	\$
Accounting service center	\$	\$	\$	\$
Information technology services and projects	\$	\$	\$ 592,019	\$ 684,900
Building occupancy charges	\$ 1,770,000	\$ 1,910,300	\$ 1,478,900	\$ 465,600
Rent - Privately owned property				
Building rentals/lease payments	\$ 605,000	\$ 599,059	\$ 195,870	\$ 193,240
Interest expense/penalty payments			1,362	
Miscellaneous other expenses		5,941		
Total rent - Privately owned property	\$ 605,000	\$ 605,000	\$ 197,232	\$ 193,240
Write-offs and DTMB central administrative services	\$	\$	\$	\$

*This exhibit continued on next page.*

UNAUDITED  
Exhibit 2

2008-09	2009-10	2010-11	2011-12	Total
\$ 163,904	\$ 325,955	\$ 165,673	\$ 163,458	\$ 1,539,667
\$ 765	\$ 11,859	\$ (350)	\$	\$ 21,227
17,011	10,036	115		112,794
2,249	7,616			19,617
5,000				5,000
15	21,000			21,015
				313
6	1,164			23,369
\$ 25,046	\$ 51,675	\$ (235)	\$ 0	\$ 203,334
\$ 188,951	\$ 377,630	\$ 165,439	\$ 163,458	\$ 1,743,001
\$ 1,145,520	\$ 634,242	\$ 562,539	\$ 724,570	\$ 8,984,283
\$ 761	\$ 2,766	\$	\$	\$ 28,849
	1,428			147,867
	7,000			32,401
				9,329
				3,674
210				31,232
\$ 971	\$ 11,194	\$ 0	\$ 0	\$ 253,353
\$ 1,146,492	\$ 645,437	\$ 562,539	\$ 724,570	\$ 9,237,637
\$	\$	\$	\$	\$ 5,795
\$ 32,916	\$	\$	\$	\$ 32,916
\$	\$	\$	\$ 163,544	\$ 163,544
\$ 704,300	\$ 739,500	\$ 928,748	\$ 883,284	\$ 4,532,751
\$ 817,722	\$ 561,094	\$ 352,800	\$ 331,500	\$ 7,687,916
\$ 295,091	\$ 664,600	\$ 57,921	\$ 59,719	\$ 2,670,502
153				1,516
		726,949	712,530	1,445,420
\$ 295,245	\$ 664,600	\$ 784,870	\$ 772,249	\$ 4,117,437
\$	\$	\$ 8,700	\$ 177,833	\$ 186,533

REFINED PETROLEUM FUND (RPF) EXPENDITURES

Department of Environmental Quality,  
Michigan Department of Agriculture and Rural Development, and Department of Treasury

RPF Expenditures for Each Department by Fiscal Year  
For Fiscal Years 2004-05 Through 2011-12

*Continued*

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Environmental investigations:				
Payroll	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Nonpayroll:				
Travel related and uniforms	\$	\$	\$	\$
Contractual services				
Supplies and materials				
Miscellaneous other expenses				
Total nonpayroll	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total environmental investigations	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Contaminated site investigation, cleanup, and revitalization:				
Payroll	<u>\$ 3,350,637</u>	<u>\$ 3,561,481</u>	<u>\$ 3,899,310</u>	<u>\$ 5,262,492</u>
Nonpayroll:				
Travel related and uniforms	\$ 58,082	\$ 86,708	\$ 55,596	\$ 77,984
Contractual services	209,522	233,212	82,639	146,515
Supplies and materials	46,364	15,881	14,951	47,740
Grants and distributions	15	2,334		
Building rentals/lease payments	998			
Equipment rentals/lease payments	22,173	147,399	4,419	17,286
Miscellaneous other expenses	10,570	221,296	100,390	88,937
Total nonpayroll	<u>\$ 347,724</u>	<u>\$ 706,829</u>	<u>\$ 257,995</u>	<u>\$ 378,463</u>
Total contaminated site investigation, cleanup, and revitalization	<u>\$ 3,698,361</u>	<u>\$ 4,268,310</u>	<u>\$ 4,157,305</u>	<u>\$ 5,640,955</u>
Emergency cleanup actions:				
Payroll	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Nonpayroll:				
Travel related and uniforms	\$	\$	\$	\$
Contractual services				
Supplies and materials				
Grants and distributions				
Miscellaneous other expenses				16,255
Total nonpayroll	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,255</u>
Total emergency cleanup actions	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,255</u>
Refined Petroleum Cleanup Program and Temporary Reimbursement Program:				
Payroll	<u>\$</u>	<u>\$ 48,427</u>	<u>\$ 425,959</u>	<u>\$ 555,458</u>
Nonpayroll:				
Travel related and uniforms	\$	\$ 16	\$ 12,994	\$ 40,171
Contractual services		4,705,091	2,946,747	6,146,356
Supplies and materials		418	3,513	17,508
Grants and distributions			3,090,454	8,896,343
Equipment rentals/lease payments				
Miscellaneous other expenses		185,508	512,997	1,543,982
Total nonpayroll	<u>\$ 0</u>	<u>\$ 4,891,033</u>	<u>\$ 6,566,706</u>	<u>\$ 16,644,360</u>
Total Refined Petroleum Cleanup Program and Temporary Reimbursement Program	<u>\$ 0</u>	<u>\$ 4,939,461</u>	<u>\$ 6,992,665</u>	<u>\$ 17,199,817</u>

*This exhibit continued on next page.*

UNAUDITED  
Exhibit 2

2008-09	2009-10	2010-11	2011-12	Total
\$	\$ 209,307	\$ 271,233	\$ 72,497	\$ 553,037
\$	\$ 1,622	\$ 2,433	\$ 2,069	\$ 6,124
	10,757	12,021	19,637	42,415
	(90)	26	262	198
		(166,179)	118,083	(48,095)
\$ 0	\$ 12,290	\$ (151,699)	\$ 140,051	\$ 642
\$ 0	\$ 221,597	\$ 119,534	\$ 212,549	\$ 553,679
\$ 5,335,348	\$ 5,244,421	\$ 6,611,592	\$ 6,470,324	\$ 39,735,604
\$ 87,838	\$ 86,819	\$ 139,097	\$ 67,487	\$ 659,612
109,170	74,413	123,784	175,119	1,154,374
41,877	15,721	56,203	44,976	283,713
1,264	661			4,273
	6,069	53,259	46,602	106,928
16,375	6,122	25,509	27,551	266,836
98,862	96,817	155,518	63,667	836,057
\$ 355,387	\$ 286,622	\$ 553,370	\$ 425,403	\$ 3,311,792
\$ 5,690,735	\$ 5,531,042	\$ 7,164,963	\$ 6,895,726	\$ 43,047,397
\$ 175,794	\$ 170,841	\$ 192,693	\$ 330,226	\$ 869,553
\$ 33,250	\$ 27,361	\$ 12,000	\$ 12,784	\$ 85,394
239,152	557,894	126,922	33,991	957,960
497	1,206	1,406	1,677	4,786
		8,016		8,016
221,475	224,220	105,639	74,839	642,428
\$ 494,374	\$ 810,680	\$ 253,984	\$ 123,291	\$ 1,698,584
\$ 670,168	\$ 981,521	\$ 446,676	\$ 453,517	\$ 2,568,137
\$ 432,942	\$ 257,143	\$ 39,673	\$ 131,248	\$ 1,890,849
\$ 20,028	\$ 8,730	\$ 4,231	\$ 5,176	\$ 91,345
9,650,077	9,961,532	8,656,277	10,244,727	52,310,807
13,020	2,306	6,517	9,679	52,962
12,492,441	3,642,538			28,121,776
	4,316	6,120		10,436
1,736,835	1,349,655	1,243,870	1,370,381	7,943,228
\$ 23,912,401	\$ 14,969,077	\$ 9,917,015	\$ 11,629,963	\$ 88,530,554
\$ 24,345,343	\$ 15,226,219	\$ 9,956,688	\$ 11,761,210	\$ 90,421,403

REFINED PETROLEUM FUND (RPF) EXPENDITURES

Department of Environmental Quality,  
Michigan Department of Agriculture and Rural Development, and Department of Treasury

RPF Expenditures for Each Department by Fiscal Year  
For Fiscal Years 2004-05 Through 2011-12  
*Continued*

	2004-05	2005-06	2006-07	2007-08
Air Quality Program:				
Payroll	\$ 2,609,648	\$ 2,239,804	\$ 2,162,529	\$ 1,475,357
Nonpayroll:				
Travel related and uniforms	\$ 29,721	\$ 17,006	\$ 36,388	\$ 24,126
Contractual services	129,351	319,836	131,627	73,720
Supplies and materials	42,965	31,611	19,805	6,613
Grants and distributions		27,664	51,699	17,262
Building rentals/lease payments	2,107			
Equipment rentals/lease payments	26,641	7,361	6,658	3,151
Miscellaneous other expenses	56,863	14,546	237,708	34,457
Total nonpayroll	\$ 287,648	\$ 418,023	\$ 483,884	\$ 159,329
Total Air Quality Program	\$ 2,897,296	\$ 2,657,827	\$ 2,646,414	\$ 1,634,685
Underground Storage Tank Program:				
Payroll	\$	\$	\$	\$
Nonpayroll:				
Travel related and uniforms	\$	\$	\$	\$
Contractual services				
Supplies and materials				
Miscellaneous other expenses				
Total nonpayroll	\$ 0	\$ 0	\$ 0	\$ 0
Total Underground Storage Tank Program	\$ 0	\$ 0	\$ 0	\$ 0
Aboveground Storage Tank Program:				
Payroll	\$	\$	\$	\$
Nonpayroll:				
Travel related and uniforms	\$	\$	\$	\$
Contractual services				
Supplies and materials				
Miscellaneous other expenses				
Total nonpayroll	\$ 0	\$ 0	\$ 0	\$ 0
Total Aboveground Storage Tank Program	\$ 0	\$ 0	\$ 0	\$ 0
Drinking Water and Environmental Health Program:				
Payroll	\$ 434,618	\$ 496,187	\$ 504,466	\$ 524,918
Nonpayroll:				
Travel related and uniforms	\$ 4,219	\$ 8,068	\$ 2,301	\$ 2,444
Contractual services	116	5,154	13,328	349
Supplies and materials	312	85	1,326	2,341
Equipment rentals/lease payments				
Miscellaneous other expenses	59,595	34	14	1,038
Total nonpayroll	\$ 64,241	\$ 13,341	\$ 16,969	\$ 6,173
Total Drinking Water and Environmental Health Program	\$ 498,859	\$ 509,527	\$ 521,434	\$ 531,091

*This exhibit continued on next page.*



UNAUDITED  
Exhibit 2

2008-09	2009-10	2010-11	2011-12	Total
<u>\$ 1,850,833</u>	<u>\$ 2,638,420</u>	<u>\$ 2,918,903</u>	<u>\$ 2,767,303</u>	<u>\$ 18,662,796</u>
\$ 8,733	\$ 8,966	\$ 21,985	\$ 11,741	\$ 158,666
636,521	593,522	161,299	91,816	2,137,692
4,089	3,800	(45,100)	13,502	77,286
68,702	21,422	21,422	(670)	207,501
				2,107
8,531	424	1,101	337	54,203
18,712	142,453	20,851	57,551	583,140
<u>\$ 745,287</u>	<u>\$ 770,587</u>	<u>\$ 181,560</u>	<u>\$ 174,277</u>	<u>\$ 3,220,595</u>
<u>\$ 2,596,120</u>	<u>\$ 3,409,007</u>	<u>\$ 3,100,463</u>	<u>\$ 2,941,580</u>	<u>\$ 21,883,391</u>
<u>\$ 809,977</u>	<u>\$ 967,199</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,777,176</u>
\$ 11,564	\$ 22,396	\$	\$	\$ 33,960
147	49	258		454
134				134
27	114			140
<u>\$ 11,871</u>	<u>\$ 22,558</u>	<u>\$ 258</u>	<u>\$ 0</u>	<u>\$ 34,688</u>
<u>\$ 821,848</u>	<u>\$ 989,757</u>	<u>\$ 258</u>	<u>\$ 0</u>	<u>\$ 1,811,863</u>
<u>\$ 160,982</u>	<u>\$ 377,179</u>	<u>\$ 103,655</u>	<u>\$</u>	<u>\$ 641,817</u>
\$ 13,714	\$ 25,350	\$ 3,118	\$ 1,359	\$ 43,541
	256	434	609	1,299
101	200			301
39	104			143
<u>\$ 13,854</u>	<u>\$ 25,910</u>	<u>\$ 3,551</u>	<u>\$ 1,969</u>	<u>\$ 45,284</u>
<u>\$ 174,837</u>	<u>\$ 403,089</u>	<u>\$ 107,206</u>	<u>\$ 1,969</u>	<u>\$ 687,101</u>
<u>\$ 526,930</u>	<u>\$ 535,056</u>	<u>\$ 298,394</u>	<u>\$ 299,140</u>	<u>\$ 3,619,708</u>
\$ 2,786	\$ 650	\$ 2,213	\$ 2,833	\$ 25,516
6,531	2,394	3,728	3,222	34,823
498	80	1,103	311	6,055
		187	75	263
5,266	5	5,234	607	71,792
<u>\$ 15,081</u>	<u>\$ 3,129</u>	<u>\$ 12,465</u>	<u>\$ 7,049</u>	<u>\$ 138,447</u>
<u>\$ 542,010</u>	<u>\$ 538,185</u>	<u>\$ 310,859</u>	<u>\$ 306,189</u>	<u>\$ 3,758,155</u>

**REFINED PETROLEUM FUND (RPF) EXPENDITURES**

Department of Environmental Quality,  
Michigan Department of Agriculture and Rural Development, and Department of Treasury

RPF Expenditures for Each Department by Fiscal Year  
For Fiscal Years 2004-05 Through 2011-12

*Continued*

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Surface Water Program:				
Payroll	\$	\$	\$	\$ 96,748
Nonpayroll:				
Travel related and uniforms	\$	\$	\$	\$ 3,202
Contractual services				242
Supplies and materials				114
Miscellaneous other expenses				7
Total nonpayroll	\$ 0	\$ 0	\$ 0	\$ 3,565
Total Surface Water Program	\$ 0	\$ 0	\$ 0	\$ 100,313
 Fish Contaminant Monitoring Program	 \$ 316,100	 \$ 316,100	 \$ 315,475	 \$ 313,366
 Grants to Counties - Air Pollution Program	 \$ 83,700	 \$ 60,336	 \$ 83,700	 \$ 83,700
<b>Total Department of Environmental Quality expenditures</b>	<b>\$ 11,305,214</b>	<b>\$ 17,214,589</b>	<b>\$ 19,080,392</b>	<b>\$ 28,396,966</b>
 <b><u>Michigan Department of Agriculture and Rural Development</u></b>				
Management services:				
Payroll	\$	\$ 221,500	\$ 216,613	\$ 237,390
Nonpayroll:				
Contractual services	\$	\$	\$ 1,412	\$ 2,166
Supplies and materials				
Building rentals/lease payments				
Equipment rentals/lease payments				
Total nonpayroll	\$ 0	\$ 0	\$ 1,412	\$ 2,166
Total management services	\$ 0	\$ 221,500	\$ 218,025	\$ 239,556
 Rent and building occupancy charges:				
Nonpayroll:				
Supplies and materials	\$	\$ 5,411	\$	\$
Building rentals/lease payments		35,810	113,990	114,000
Miscellaneous other expenses		72,779		
Total rent and building occupancy charges	\$ 0	\$ 114,000	\$ 113,990	\$ 114,000
 Laboratory services:				
Payroll	\$	\$	\$ 118,180	\$ 160,258
Nonpayroll:				
Travel related and uniforms	\$	\$	\$	\$ 2,412
Contractual services			3,063	32,701
Supplies and materials			16,397	29,982
Grants and distributions				
Equipment rentals/lease payments				1,994
Miscellaneous other expenses				
Total nonpayroll	\$ 0	\$ 0	\$ 19,460	\$ 67,089
Total laboratory services	\$ 0	\$ 0	\$ 137,640	\$ 227,347

*This exhibit continued on next page.*

UNAUDITED  
Exhibit 2

2008-09	2009-10	2010-11	2011-12	Total
\$ 97,810	\$ 93,958	\$ 75,974	\$ 108,254	\$ 472,745
\$ 1,816	\$ 2,516	\$ 1,211	\$ 2,153	\$ 10,898
191	22	6	775	1,236
32				146
167	4,036	31,882	2,000	38,092
\$ 2,206	\$ 6,574	\$ 33,099	\$ 4,928	\$ 50,372
\$ 100,016	\$ 100,532	\$ 109,073	\$ 113,182	\$ 523,117
\$ 299,583	\$ 316,046	\$ 316,100	\$ 315,744	\$ 2,508,514
\$ 83,700	\$ 83,700	\$ 74,059	\$ 78,965	\$ 631,860
<b>\$ 38,509,985</b>	<b>\$ 30,788,957</b>	<b>\$ 24,508,976</b>	<b>\$ 26,297,069</b>	<b>\$ 196,102,147</b>
\$ 54,565	\$ 54,475	\$ 56,847	\$ 56,682	\$ 898,072
\$ (9,160)	\$ 648	\$	\$ 122	\$ 4,348
4,995	(2,949)			(9,160)
212				2,046
\$ (3,953)	\$ (2,302)	\$ 0	\$ 122	\$ (2,555)
\$ 50,612	\$ 52,174	\$ 56,847	\$ 56,804	\$ 895,517
\$ 114,000	\$ (908,270)	\$ (674,086)	\$ (672,494)	\$ 5,411
	1,022,270	931,286	929,694	(1,877,050)
\$ 114,000	\$ 114,000	\$ 257,200	\$ 257,200	\$ 2,956,029
\$ 144,539	\$ 164,782	\$ 304,897	\$ 224,774	\$ 1,117,430
\$ 22	\$	\$ 305	\$ 590	\$ 3,329
36,141	46,632	32,467	35,358	186,362
47,785	71,725	62,622	138,941	367,451
		1,825		1,825
3,314	1,634			6,942
1				1
\$ 87,261	\$ 119,990	\$ 97,220	\$ 174,889	\$ 565,910
\$ 231,800	\$ 284,772	\$ 402,117	\$ 399,663	\$ 1,683,340

**REFINED PETROLEUM FUND (RPF) EXPENDITURES**

Department of Environmental Quality,  
Michigan Department of Agriculture and Rural Development, and Department of Treasury

RPF Expenditures for Each Department by Fiscal Year  
For Fiscal Years 2004-05 Through 2011-12

*Continued*

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Consumer Protection Program:				
Payroll	<u>\$ 1,515,544</u>	<u>\$ 2,362,485</u>	<u>\$ 2,044,083</u>	<u>\$ 2,284,934</u>
Nonpayroll:				
Travel related and uniforms	\$ 176,790	\$ 271,687	\$ 425,570	\$ 405,164
Contractual services	185,975	330,003	196,465	382,287
Supplies and materials	65,930	17,895	91,740	223,757
Grants and distributions				
Building rentals/lease payments				
Equipment rentals/lease payments	94,079	83,531	3,240	149,746
Miscellaneous other expenses	580	8,045	2,427	2,065
Total nonpayroll	<u>\$ 523,355</u>	<u>\$ 711,160</u>	<u>\$ 719,443</u>	<u>\$ 1,163,020</u>
Total Consumer Protection Program	<u>\$ 2,038,898</u>	<u>\$ 3,073,645</u>	<u>\$ 2,763,526</u>	<u>\$ 3,447,954</u>
<b>Total Michigan Department of Agriculture and Rural Development expenditures</b>	<b><u>\$ 2,038,898</u></b>	<b><u>\$ 3,409,145</u></b>	<b><u>\$ 3,233,181</u></b>	<b><u>\$ 4,028,857</u></b>
<b><u>Department of Treasury</u></b>				
Debt service - Quality of Life bonds	\$ 20,341,000	\$ 20,341,000	\$ 20,341,000	\$ 20,341,000
Debt service - CMI bonds	3,573,500	3,573,500	3,573,500	3,573,500
<b>Total Department of Treasury expenditures</b>	<b><u>\$ 23,914,500</u></b>	<b><u>\$ 23,914,500</u></b>	<b><u>\$ 23,914,500</u></b>	<b><u>\$ 23,914,500</u></b>
Total expenditures	<u>\$ 37,258,613</u>	<u>\$ 44,538,234</u>	<u>\$ 46,228,072</u>	<u>\$ 56,340,323</u>

Source: The Office of the Auditor General prepared this exhibit based on data obtained from the Michigan Administrative Information Network (MAIN).

UNAUDITED  
Exhibit 2

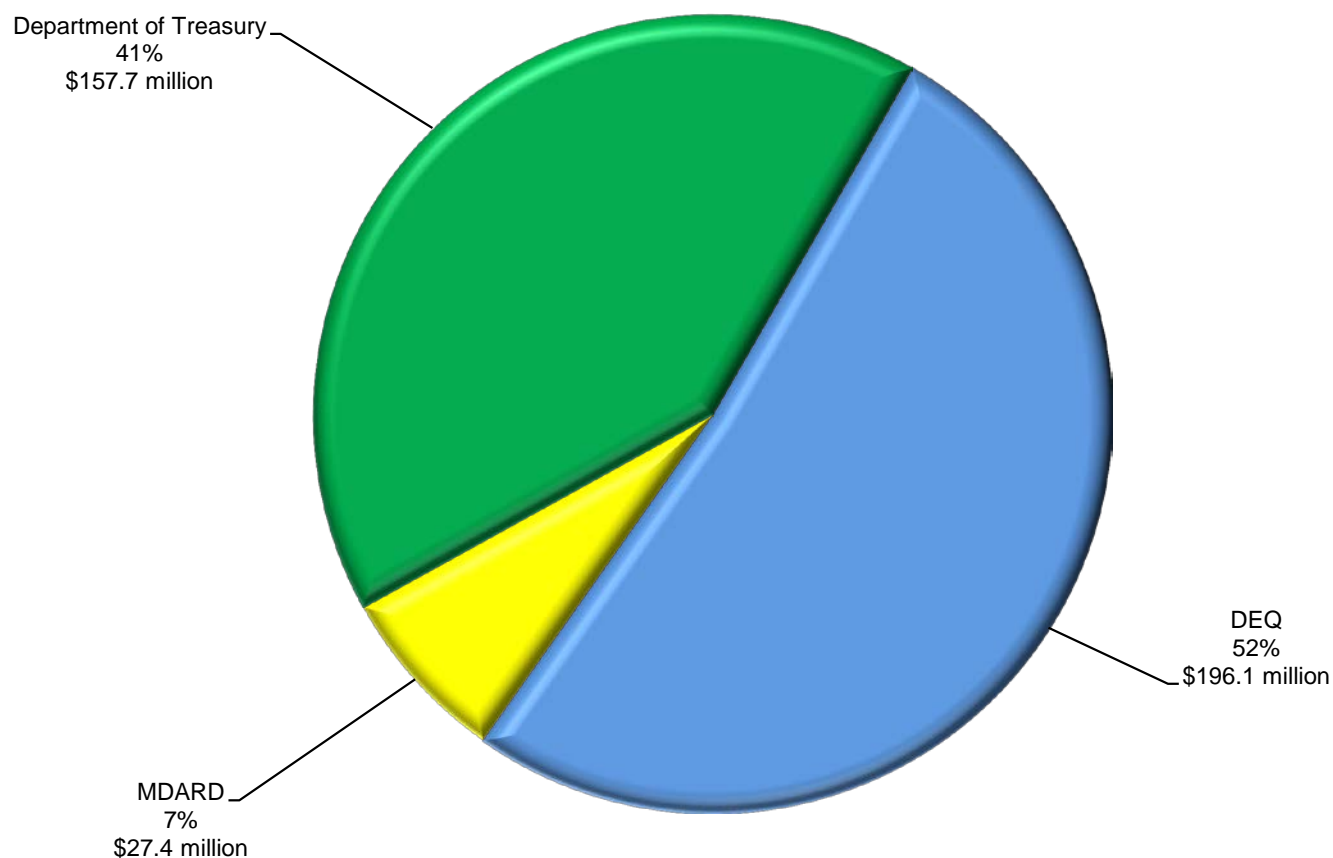
2008-09	2009-10	2010-11	2011-12	Total
<u>\$ 2,347,905</u>	<u>\$ 2,320,972</u>	<u>\$ 2,314,492</u>	<u>\$ 2,354,785</u>	<u>\$ 17,545,199</u>
\$ 353,153	\$ 358,549	\$ 359,071	\$ 422,377	\$ 2,772,362
89,080	181,760	215,168	276,173	1,856,911
152,062	102,679	120,020	69,302	843,385
	6,657	9,199		15,856
171,790	3,133			174,923
716	41,719	34,997	70,306	478,334
1,572	1,481			16,169
<u>\$ 768,373</u>	<u>\$ 695,978</u>	<u>\$ 738,454</u>	<u>\$ 838,158</u>	<u>\$ 6,157,940</u>
<u>\$ 3,116,277</u>	<u>\$ 3,016,950</u>	<u>\$ 3,052,946</u>	<u>\$ 3,192,943</u>	<u>\$ 23,703,140</u>
 <u><b>\$ 3,512,690</b></u>	 <u><b>\$ 3,467,896</b></u>	 <u><b>\$ 3,769,110</b></u>	 <u><b>\$ 3,906,610</b></u>	 <u><b>\$ 27,366,386</b></u>
 \$ 15,514,500	 \$ 15,514,500	 \$ 15,514,500	 \$ 15,514,500	 \$ 143,422,000
				14,294,000
<u><b>\$ 15,514,500</b></u>	<u><b>\$ 15,514,500</b></u>	<u><b>\$ 15,514,500</b></u>	<u><b>\$ 15,514,500</b></u>	<u><b>\$ 157,716,000</b></u>
<u><u>\$ 57,537,174</u></u>	<u><u>\$ 49,771,352</u></u>	<u><u>\$ 43,792,585</u></u>	<u><u>\$ 45,718,179</u></u>	<u><u>\$ 381,184,533</u></u>

REFINED PETROLEUM FUND (RPF) EXPENDITURES

Department of Environmental Quality (DEQ),  
Michigan Department of Agriculture and Rural Development (MDARD), and Department of Treasury

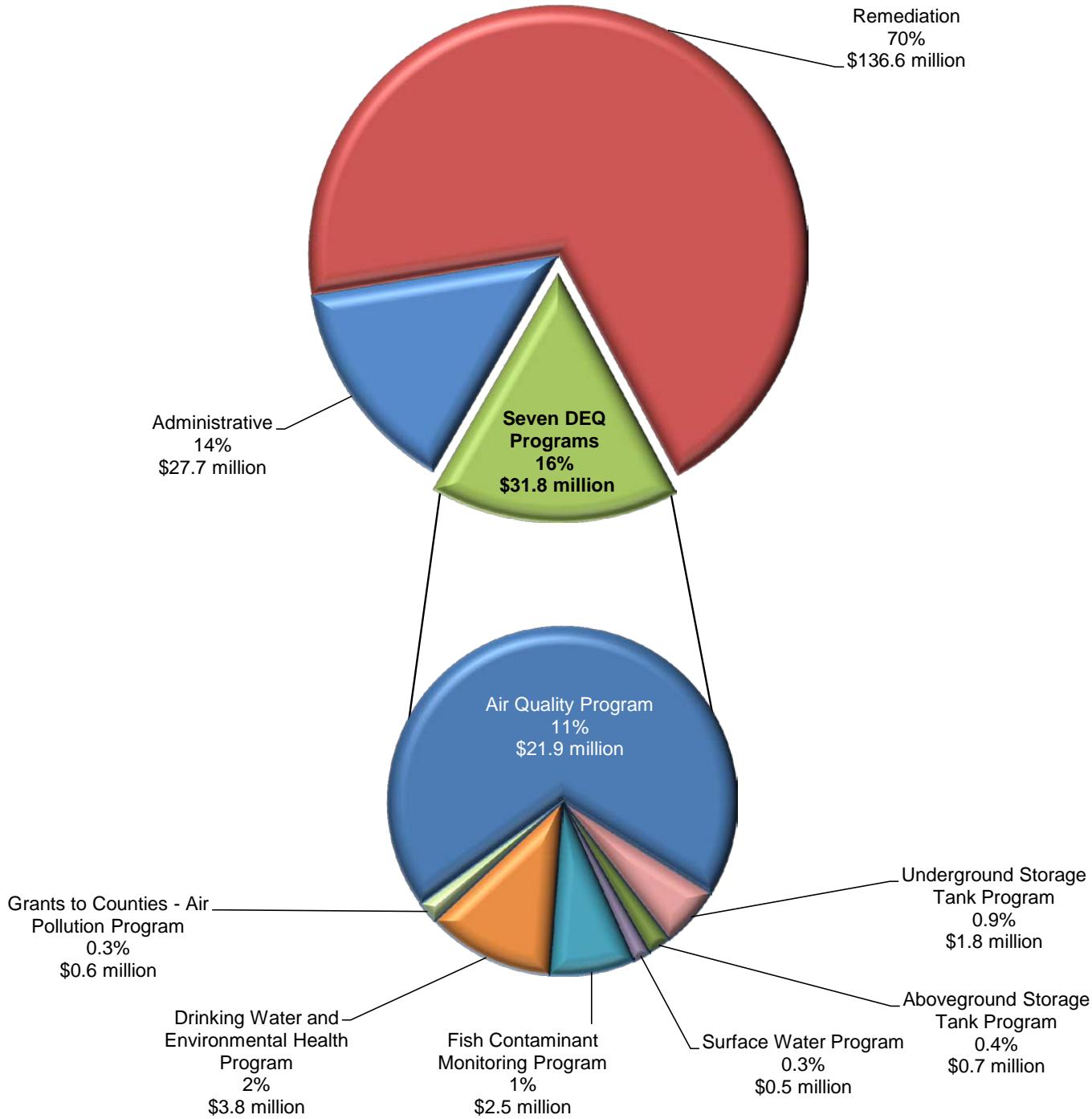
Pie Charts of RPF Expenditures by Department  
For the Period October 1, 2004 through September 30, 2012

Total RPF Expenditures by Department



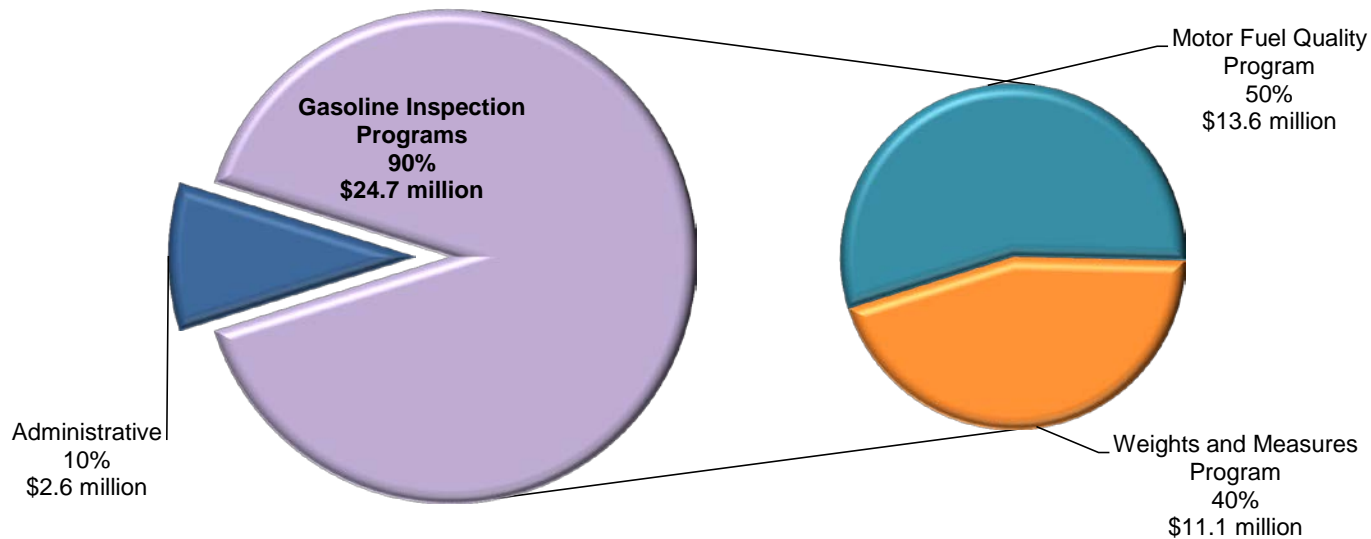
*This exhibit continued on next page.*

RPF Expenditures - DEQ

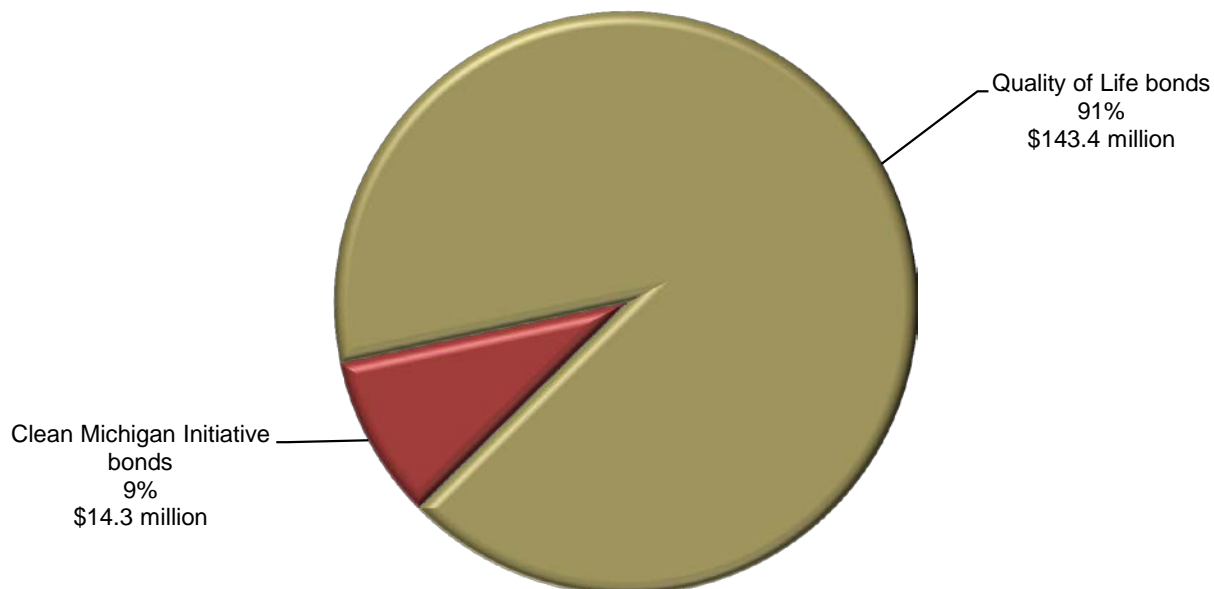


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RPF Expenditures - MDARD



RPF Expenditures - Department of Treasury



Source: The Office of the Auditor General prepared this exhibit based on data obtained from the Michigan Administrative Information Network (MAIN).



**REFINED PETROLEUM FUND (RPF) EXPENDITURES**

Department of Environmental Quality (DEQ),

Michigan Department of Agriculture and Rural Development, and Department of Treasury

Executive Summary of the Underground Storage Tank System Cleanup Advisory Board Report

Issued March 1, 2013**EXECUTIVE SUMMARY**

In 1988, Michigan created the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) to assist owners and operators of petroleum underground storage tanks (USTs) with meeting the U.S. Environmental Protection Agency's (EPA) financial assurance requirements. MUSTFA was funded by a 7/8 cent per gallon environmental regulatory fee (the fee) on all refined petroleum sold or imported into the State.

In 1995, the MUSTFA program was repealed, however collection of the fee continued. In 2004, authority to continue to collect the fee was extended. MUSTFA was renamed the Refined Petroleum Fund (RPF) and a Temporary Reimbursement Program (TRP) was created to provide temporary assistance to owners and operators to conduct corrective action at locations which were being funded by the MUSTFA program at the time the MUSTFA program was repealed. Of the \$45 million appropriated for the TRP, approximately \$29 million was paid to reimburse owners and operators for corrective action costs at 554 sites.

The fee has generated approximately \$50 million annually since its inception in 1989. However, since 2005, \$850 million has been appropriated for uses outside of the original intent of the program.

In 2012, significant reforms to the Part 213 program were adopted. As part of this reform package, an underground storage tank system cleanup advisory board (Advisory Board) was created to make recommendations to the Department of Environmental Quality (DEQ) and the Legislature on the development of a cleanup program, funded from the RPF, to assist owners and operators in financing corrective action required under Part 213.

The Advisory Board strongly recommends that all of the annual RPF revenue be restored to fund the State's UST programs to: (1) Provide financial responsibility for owners and operators to address future releases; (2) Fund a reimbursement program to provide assistance to qualified owners and operators undertaking corrective action to address known historical releases; and (3) Conduct corrective action to mitigate imminent and substantial threats to public health or the environment at LUST sites where no liable or viable owner or operator is identified or able to undertake corrective actions (otherwise known as "orphan sites").

The Advisory Board has concluded that establishing a financial responsibility program with RPF revenue is the preferred way in which to meet the goal of a predictable and reliable method of protecting public health and the environment from UST releases. Given the significant reduction and improvement in the UST population, the recent reforms which are expected to reduce corrective action costs, and the 25 years of "lessons learned" experience, such a program is viable within current RPF revenue levels.

# GLOSSARY

## Glossary of Acronyms and Terms

Clean Michigan Initiative (CMI) bonds	General obligation bonds to finance environmental and natural resources protection programs that would clean up and redevelop contaminated sites, protect and improve water quality, prevent pollution, abate lead contamination, reclaim and revitalize community waterfronts, enhance recreational opportunities, and clean up contaminated sediments in lakes, rivers, and streams.
corrective action	The investigation, assessment, cleanup, removal, containment, isolation, treatment, or monitoring of regulated substances released into the environment or the taking of such other actions as may be necessary to prevent, minimize, or mitigate injury to the public health, safety, or welfare; the environment; or natural resources.
DEQ	Department of Environmental Quality.
DTMB	Department of Technology, Management, and Budget.
MDARD	Michigan Department of Agriculture and Rural Development.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MUSTFA	Michigan Underground Storage Tank Financial Assurance Act.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.

performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
petroleum	Crude oil, crude oil fractions, and refined petroleum fractions including gasoline, kerosene, heating oils, and diesel fuels.
Quality of Life bonds	General obligation bonds to finance environmental protection programs that would clean up sites of toxic and other environmental contamination and contribute to a regional Great Lakes protection fund, address solid waste problems, treat sewage and other water quality problems, and reuse industrial sites and preserve open space.
refined petroleum	Aviation gasoline, middle distillates, jet fuel, kerosene gasoline, residual oils, and any oxygenates that have been blended with any of these.
Refined Petroleum Product Cleanup Initial Program	A DEQ program that provides corrective actions associated with releases from petroleum underground storage tank systems.
release	Any spilling, leaking, emitting, discharging, escaping, or leaching from a petroleum underground storage tank system into groundwater, surface water, or subsurface soils.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is

significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

RPF

Refined Petroleum Fund.

Temporary  
Reimbursement  
Program

A DEQ program that promotes progress toward site closure of releases from petroleum underground storage tank systems by providing financial incentives for eligible persons to conduct corrective actions for those releases.

Underground Storage  
Tank Program

A DEQ program that oversees the design, construction, installation, and operation of underground storage tanks.

underground storage  
tank system

An existing tank or combination of tanks, including underground pipes connected to the tank or tanks, which is or was used to contain an accumulation of regulated substances, and is not currently being used for any other purpose, and the volume of which, including the volume of the underground pipes connected to the tank or tanks, is 10% or more beneath the surface of the ground.





