

**COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA SECURITIES COMMISSION
HARRISBURG, PENNSYLVANIA**

**COMPLIANCE AUDIT
FOR THE FISCAL PERIOD JULY 1, 2002 THROUGH JUNE 30, 2005**

**FINANCIAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**DEPARTMENT OF THE AUDITOR GENERAL
REPORT SUMMARY
COMPLIANCE AND FINANCIAL AUDIT**

PENNSYLVANIA SECURITIES COMMISSION

COMPLIANCE AUDIT:

Audit Objective

In accordance with *Government Auditing Standards* applicable to performance audits and for the period of July 1, 2002 through June 30, 2005, to determine:

- if the commission's policies and procedures to record, monitor and resolve consumer complaints are adequate and functioning as designed.

Audit Results – Compliance Objective

The commission was in compliance with the requirements stated in the audit objective. Our report does not include any findings related to this audit objective.

FINANCIAL AUDIT:

Audit Objective

To audit the Pennsylvania Securities Commission's (commission) financial schedules for the fiscal year ended June 30, 2005, in accordance with *Government Auditing Standards* applicable to financial audits.

Auditor's Report Issued

We issued an unqualified opinion on the commission's financial schedules on the basis of accounting as described in Note A. (See Opinion Letter on Page 11)

Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

Noncompliance or Other Matters Material to the Financial Schedule

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.



PENNSYLVANIA SECURITIES COMMISSION

BACKGROUND

The Pennsylvania Securities Commission (commission) consists of three commissioners appointed by the Governor with the advice and consent of the Senate.

The primary function of the commission is to encourage the financing of business and industry in the Commonwealth while protecting the investing public from fraudulent and unfair practices in the securities industry.

The commission's functions also include the investigation of alleged violations of Commonwealth statutes, and the initiation of administrative and civil proceedings and case referrals to other law enforcement agencies for criminal prosecution of persons believed to have violated laws in connection with the offering and sale of securities in Pennsylvania.



COMPLIANCE AUDIT SECTION



The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Dear Governor Rendell:

We have conducted a compliance audit of the Pennsylvania Securities Commission for the period July 1, 2002 through June 30, 2005. The audit was conducted pursuant to authority derived from Section 402 of the Fiscal Code and in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

The objective of the audit was to determine:

- if the Pennsylvania Securities Commission's policies and procedures to record, monitor and resolve consumer complaints are adequate and functioning as designed.

Our compliance audit was limited to the areas related to the objective identified above, and included the following procedures:

1. reviewed applicable legislation, regulations, and policies and procedures regarding the duties of the Pennsylvania Securities Commission in overseeing and processing consumer complaints;
2. examined applicable consumer complaint files, reports and information summaries;
3. documented various control environments and processes relating to consumer complaints; and
4. interviewed Pennsylvania Securities Commission personnel to obtain an understanding of how they monitor and resolve consumer complaints.

The results of our tests indicated that, in all significant respects, the Pennsylvania Securities Commission complied with the requirements stated in the audit objective.

We have also audited the Schedule of Sources and Disposition of Authorizations and Schedule of Revenue of the Pennsylvania Securities Commission for the fiscal year ended June 30, 2005, issued under a separate section of this report.

Sincerely,

December 1, 2006

JACK WAGNER
Auditor General

FINANCIAL AUDIT SECTION



Independent Auditor's Report

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Dear Governor Rendell:

We have audited the Schedule of Sources and Disposition of Authorizations and Schedule of Revenue of the Pennsylvania Securities Commission for the fiscal year ended June 30, 2005. These financial schedules are the responsibility of the Pennsylvania Securities Commission's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the Pennsylvania Securities Commission's financial schedules are on a prescribed basis of accounting that demonstrates compliance with the budget laws of the Commonwealth of Pennsylvania, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial schedules of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As further discussed in Note A, the financial schedules of the Pennsylvania Securities Commission are intended to present the schedule of sources and disposition of authorizations and schedule of revenue of only that portion of the funds of the Commonwealth of Pennsylvania attributable to the transactions of the Pennsylvania Securities Commission.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the Pennsylvania Securities Commission as of June 30, 2005, or changes in financial position or, where applicable, its cash flows for the year then ended.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the schedule of sources and disposition of authorizations and schedule of revenue of the Pennsylvania Securities Commission for the fiscal year ended June 30, 2005, on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006, on our consideration of the Pennsylvania Securities Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 audit.

This report is intended solely for the information and use of management of the Pennsylvania Securities Commission, the Pennsylvania Senate, and the Pennsylvania House of Representatives, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

December 1, 2006

JACK WAGNER
Auditor General

**PENNSYLVANIA SECURITIES COMMISSION
SCHEDULE OF SOURCES AND DISPOSITION OF AUTHORIZATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	AMOUNT
SOURCES OF AUTHORIZATIONS	
Appropriations	\$ 2,395,000
Reserve Carried Forward	1,245,083
Actual Augmentations	6,861,394
	\$ 10,501,477
 DISPOSITION OF AUTHORIZATIONS	
Expenditures	\$ 7,534,540
Commitments	315,589
Lapses	1,164,140
	\$ 9,014,269
 AVAILABLE BALANCE	 \$ 1,487,208

-The notes to the financial schedules are an integral part of this schedule.-

**PENNSYLVANIA SECURITIES COMMISSION
SCHEDULE OF REVENUE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

REVENUE	AMOUNT
<i>Licenses and Fees:</i>	
Mutual Funds Filing Fees	\$ 5,816,287
Brokers/Dealers Registration Fees	944,800
Security Agents Filing Fees	14,002,040
Investment Advisors Filing Fees	655,100
Other Licenses and Fees	404,510
Total	\$ 21,822,737
 <i>Augmenting Revenue:</i>	
Compliance Assessments	\$ 6,733,877
Mutual Fund Registrations	127,517
Total	\$ 6,861,394
TOTAL REVENUE	\$ 28,684,131

-The notes to the financial schedules are an integral part of this schedule.-

PENNSYLVANIA SECURITIES COMMISSION

**NOTES TO FINANCIAL SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Pennsylvania Securities Commission (commission) receives and expends monies from the General Fund. The accompanying financial schedules report the sources and disposition of authorizations and schedule of revenue of funds for which the commission has been designated as the receiving or disbursing agency, and do not report all transactions of the fund. All financial transactions in the Commonwealth's General Fund are reported annually in the Commonwealth of Pennsylvania's *Comprehensive Annual Financial Report* (CAFR). The CAFR provides more extensive disclosures regarding the Commonwealth's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension and other postemployment benefits. Accordingly, the accompanying financial schedules report the budgetary operations and conditions at the commission level which differs significantly from the reporting model required by accounting principles generally accepted in the United States applicable to governments.

Budgetary Accounting: The Constitution of Pennsylvania requires an annually balanced operating budget. Therefore, a budget is legally adopted each year. The budget is prepared on a budgetary basis which is a regulatory basis of accounting. Operating budget appropriations may not exceed the actual and estimated revenue and surplus. Budgetary control occurs at the appropriation level; this is the lowest level of legislative spending control. After an appropriation has been made, it is allocated to various subcategories by major object. These allocation amounts are approved by the Office of the Budget. The commission is responsible for operating its programs within these allocation amounts.

The accounting records of the commission are maintained in accordance with the various budgetary, constitutional and statutory provisions. The accounting system provides a means to record the budget plan and related financial transactions.

The commission's annual budget represents appropriations authorized by the General Assembly in the form of appropriation acts and executive authorizations issued by the Governor. A single appropriation is normally made to the commission for salaries, wages and other necessary expenses. This appropriation covers normal operating expenses of subordinate departmental units carrying on the programs assigned to the commission. Separate appropriations are normally made for other specific purposes, including grants and subsidies, fixed charges, and miscellaneous special programs and purposes.

PENNSYLVANIA SECURITIES COMMISSION

**NOTES TO FINANCIAL SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The commission uses a prescribed basis of accounting that demonstrates compliance with the budget laws of the Commonwealth of Pennsylvania, which differs from accounting principles generally accepted in the United States of America. Generally, the commission records revenue and receipts when received and expenditures when documents are submitted to the Treasury Department for payment. Encumbrance accounting is employed as an extension of formal budgetary integration in the accounting system. Purchase orders, contracts, and other commitments are recorded as encumbrances in order to reserve that portion of the applicable appropriation for subsequent expenditure. Lapsable appropriations and executive authorizations that remain unexpended and unencumbered as of the statutory lapse date, usually June 30, are lapsed.

Fixed Assets and Depreciation: Fixed assets are recorded as expenditures when purchased and depreciation is not recorded.

Compensated Absences: Employees earn annual leave based on 2.7 percent to 10 percent of regular hours paid to a maximum of 45 days. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on 5 percent of regular hours paid to a maximum of 300 days. Retiring employees that meet service or disability requirements are paid between 30 percent and 50 percent of their accumulated unused sick leave depending on the amount accumulated.

Accumulated annual and sick leave liability payable in subsequent fiscal years was \$723,459 at June 30, 2005. It is the commission's policy to record the cost of annual and sick leave when paid.

NOTE B - RETIREMENT CONTRIBUTIONS

Membership in the State Employees' Retirement System is mandatory for all state employees except: elected officials, appointed heads and deputies of administrative departments, departmental or advisory boards or commissions, legislative employees, Department of Education employees, and school employees. The administering agency is the State Employees' Retirement Board.

PENNSYLVANIA SECURITIES COMMISSION

**NOTES TO FINANCIAL SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE B - RETIREMENT CONTRIBUTIONS

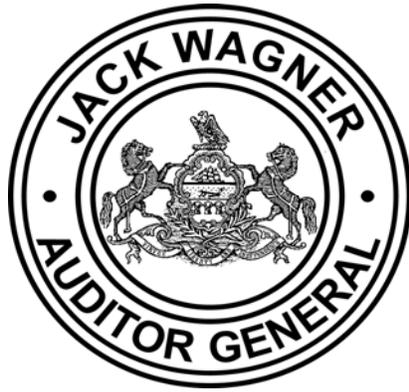
Contributions on behalf of active members are required to be made by the Commonwealth or other employers into the State Employees' Retirement Fund. Contributions are also made by active members at the rate of 5 percent or 6.25 percent of employee compensation, depending on the class of service selected. The Commonwealth contributes the additional amount necessary to fund the program. The commission's retirement contribution was \$63,653 for the fiscal year ended June 30, 2005.

Data with respect to the excess, if any, of the actuarially computed value of vested benefits over the total of the pension fund and any balance sheet pension accruals, less any pension prepayments or deferred charges, is not available on a department basis.

Postemployment Health Care Benefits: In addition to providing pension benefits, the commission provides certain health care benefits for retired employees that meet specified length-of-service and age requirements. These benefits are provided as a result of negotiated union contracts and through administrative policy. The commission recognizes the cost of providing these benefits, which for the fiscal year ended June 30, 2005, totaled \$454,354, as paid.

NOTE C - CONTINGENT COMMITMENTS

During the fiscal year ended June 30, 2005, the commission committed future funds for goods and services to be delivered during subsequent years. These commitments were contingent upon eventual passage of appropriations, and monies could not be paid out or goods and services delivered until such appropriations had been made. Contingent commitments at June 30, 2005, were \$904,486.



**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***

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Dear Governor Rendell:

We have audited the financial schedules of the Pennsylvania Securities Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated December 1, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pennsylvania Securities Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pennsylvania Securities Commission's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Pennsylvania Securities Commission, the Pennsylvania Senate, and the Pennsylvania House of Representatives, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

December 1, 2006

JACK WAGNER
Auditor General

DISTRIBUTION

**PENNSYLVANIA SECURITIES COMMISSION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
DISTRIBUTION LIST**

The Honorable Edward G. Rendell
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Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Gibson E. Armstrong
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The Honorable Gerald J. LaValle
Acting Democratic Chair
Senate Appropriations Committee
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Harrisburg, PA 17120

The Honorable Dwight Evans
Chair
House Appropriations Committee
512-E, Main Capitol Building
Harrisburg, PA 17120

The Honorable Mario Civera
Republican Chair
House Appropriations Committee
245 Main Capitol Building
Harrisburg, PA 17120

The Honorable Robert M. Tomlinson
Chair
Senate Consumer Protection and
Professional Licensure Committee
362 Main Capitol Building
Harrisburg, PA 17120

The Honorable Mark B. Cohen
C/O Leon Czikowsky
House of Representatives
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Harrisburg, PA 17120

The Honorable Joseph Martz
Secretary of Administration
207 Finance Building
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Mr. Philip R. Durgin, Executive Director
Legislative Budget and Finance Committee
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Harrisburg, PA 17120

The Honorable Roger A. Madigan
Chair
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Harrisburg, PA 17120

The Honorable Donald L. Patterson
Inspector General
Executive House
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.