



**COMMONWEALTH OF PENNSYLVANIA
STATE TAX EQUALIZATION BOARD
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**

STATE TAX EQUALIZATION BOARD

COMPLIANCE AUDIT:

Audit Objectives

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

1. whether the board complied with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedule and on its internal control over financial reporting, based on our audit of the financial schedule; and
2. whether the compilation of the market value of the taxable real property is in compliance with established policies, procedures and program guidelines. Also, to determine the accuracy of the market value information and timeliness of the information provided to other agencies.

Audit Conclusion – Compliance Objectives

The board was in compliance with the requirements stated in the audit objectives. Our report does not include any findings related to these audit objectives.
(See Compliance Letter on Page 7)

FINANCIAL AUDIT:

Audit Objective

To audit the State Tax Equalization's Board's (board) financial schedule 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 board's financial schedule 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 schedule that are required to be reported under *Government Auditing Standards*.



STATE TAX EQUALIZATION BOARD

BACKGROUND

The State Tax Equalization Board (board) was created by Act 447 of 1947, as amended, 72 P.S. § 4656. The legislative responsibility of the board is to determine annually the aggregate market value of taxable real property in each of the more than 2,500 political subdivisions and 501 school districts. Legislatively, these market values are used by the Department of Education to compute the aid ratio for each school district. Board market values are also used to determine state subsidies to local libraries, limitations on real estate taxes in school districts whose boundaries are located in more than one county, and tax limitations in financing community colleges.

The act creating the board was amended by the Act of December 13, 1982, to require the board to establish annually, prior to July 1, a common level ratio of assessed value to market value in each county for the prior calendar year, to certify the ratio to the chief assessor of each county, and to receive objections and grant hearings to adjust its findings.



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 State Tax Equalization Board 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 objectives of the audit were to determine:

1. whether the State Tax Equalization Board complied with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedule and on its internal control over financial reporting, based on our audit of the financial schedule; and
2. whether the compilation of the market value of the taxable real property is in compliance with established policies, procedures and program guidelines. Also, to determine the accuracy of the market value information and timeliness of the information provided to other agencies.

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

1. reviewing applicable legislation, rules and regulations, and policies and procedures regarding market values of taxable real property of the more than 2,500 political subdivisions and 501 school districts;
2. examining applicable reports and information summaries;
3. reviewing market value compilations;
4. documenting various key processes and associated controls;

5. testing records on market values of taxable real property compilations; and
6. interviewing State Tax Equalization Board staff.

The results of our tests indicated that, in all significant respects, the State Tax Equalization Board complied with the requirements stated in the audit objectives.

We have also audited the Schedule of Sources and Disposition of Authorizations of the State Tax Equalization Board for the fiscal year ended June 30, 2005, issued under a separate section of this report.

Sincerely,

November 20, 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 of the State Tax Equalization Board for the fiscal year ended June 30, 2005. This financial schedule is the responsibility of the State Tax Equalization Board's management. Our responsibility is to express an opinion on this financial schedule 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 schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. 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 State Tax Equalization Board's financial schedule is 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 effects on the financial schedule 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 schedule of the State Tax Equalization Board is intended to present the schedule of sources and disposition of authorizations of only that portion of the funds of the Commonwealth of Pennsylvania attributable to the transactions of the State Tax Equalization Board.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial schedule referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the State Tax Equalization Board 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 schedule referred to above presents fairly, in all material respects, the schedule of sources and disposition of authorizations of the State Tax Equalization Board 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 November 20, 2006, on our consideration of the State Tax Equalization Board'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 State Tax Equalization Board, 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 parties.

Sincerely,

November 20, 2006

JACK WAGNER
Auditor General

**STATE TAX EQUALIZATION BOARD
SCHEDULE OF SOURCES AND DISPOSITION OF AUTHORIZATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	AMOUNT
SOURCES OF AUTHORIZATIONS	
Appropriations	\$ 1,330,000
Reserve Carried Forward	78,749
	\$ 1,408,749
 DISPOSITION OF AUTHORIZATIONS	
Expenditures	\$ 1,323,945
Commitments	3,826
Lapses	48,048
	\$ 1,375,819
 AVAILABLE BALANCE	 \$ 32,930

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

STATE TAX EQUALIZATION BOARD

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The State Tax Equalization Board (board) receives and expends monies from the General Fund. The accompanying financial schedule reports the sources and disposition of authorizations of funds for which the board has been designated as the receiving or disbursing agency, and does 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 schedule reports the budgetary operations and conditions at the board 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 board is responsible for operating its programs within these allocation amounts.

The accounting records of the board 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 board'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 board for salaries, wages and other necessary expenses. This appropriation covers normal operating expenses of subordinate departmental units carrying on the programs assigned to the board. Separate appropriations are normally made for other specific purposes, including grants and subsidies, fixed charges, and miscellaneous special programs and purposes.

STATE TAX EQUALIZATION BOARD

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The board 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 board 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 \$195,061 at June 30, 2005. It is the board'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.

STATE TAX EQUALIZATION BOARD

**NOTES TO FINANCIAL SCHEDULE
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 board's retirement contribution was \$10,710 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 board 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 board recognizes the cost of providing these benefits, which for the fiscal year ended June 30, 2005, totaled \$107,100, as paid.

NOTE C - CONTINGENT COMMITMENTS

During the fiscal year ended June 30, 2005, the board 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 \$318,593.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Schedules 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 schedule of the State Tax Equalization Board for the fiscal year ended June 30, 2005, and have issued our report thereon dated November 20, 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 State Tax Equalization Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule 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 schedule 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 State Tax Equalization Board's financial schedule is 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 State Tax Equalization Board, 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 parties.

Sincerely,

November 20, 2006

JACK WAGNER
Auditor General

DISTRIBUTION

**STATE TAX EQUALIZATION BOARD
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
DISTRIBUTION LIST**

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

The Honorable Gibson E. Armstrong
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Harrisburg, PA 17120

The Honorable Vincent J. Fumo
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Senate Appropriations Committee
545 Main Capitol Building
Harrisburg, PA 17120

The Honorable Dwight Evans
Chair
House Appropriations Committee
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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
417 Main Capitol Building
Harrisburg, PA 17120

The Honorable Joseph Martz
Secretary of Administration
207 Finance Building
Harrisburg, PA 17120

Mr. Philip R. Durgin, Executive Director
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The Honorable Roger A. Madigan
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State Library of Pennsylvania
Serials Records Section
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Harrisburg, PA 17120

The Honorable James A. Zurick (3)
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5th Floor, Fulton Bank Building
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Mr. John J. Smolock (2)
Comptroller
State Tax Equalization Board
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State Treasurer (2)
129 Finance Building
Harrisburg, PA 17120

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.