



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
HARRISBURG, PENNSYLVANIA

AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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BACKGROUND

The Department of State (department) is administered by the Secretary of the Commonwealth and includes the Bureau of Charitable Organizations; the Bureau of Commissions, Elections and Legislation; the Corporation Bureau; and the Bureau of Professional and Occupational Affairs.

The department compiles, publishes and certifies all election ballots and returns and monitors campaign expense reports. It issues commissions to elected and appointed officials and records laws passed by the Legislature and signed by the Governor. The department also administers corporate and selected non-corporate business laws, maintains corporate filings and issues licenses to approximately one million businesses; administers 25 professional and occupational boards and two commissions and licenses its professionals; and registers and regulates solicitation activities of thousands of non-profit organizations.

The Secretary of the Commonwealth is an ex-officio member of the State Athletic Commission, a commission within the department that regulates athletic agents, professional and amateur boxing, kickboxing and professional wrestling.



FINANCIAL SECTION



Independent Auditor's Report

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

Dear Governor Rendell:

We have audited the Status of Appropriations by Fund-Budgetary Basis, Statement of Revenue and Receipts by Fund-Budgetary Basis and Status of Allotments by Major Object by Fund-Budgetary Basis of the Department of State for the fiscal year ended June 30, 2002. These financial statements are the responsibility of the Department of State's management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the Department of State's financial statements 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 effects on the financial statements 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 statements of the Department of State are intended to present the status of appropriations, revenue and receipts, and expenditures of only that portion of the funds of the Commonwealth of Pennsylvania attributable to the transactions of the Department of State.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements 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 Department of State as of June 30, 2002, or changes in financial position or, where applicable, its cash flows for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the status of appropriations, revenue and receipts, and expenditures of the Department of State for the fiscal year ended June 30, 2002, on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2005, on our consideration of the Department of State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management of the Department of State, 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,

December 8, 2005

JACK WAGNER
Auditor General



**STATUS OF APPROPRIATIONS BY FUND-BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

DEPARTMENT OF STATE

	Balance June 30, 2001	Appropriations	Augmentations
<u>General Fund</u>			
Current appropriations-state	\$ -	\$ 16,820,000	\$ 25,514,375
Current executive authorizations-state	-	1,200,000	5,196,000
Prior appropriations-state	4,275,489	-	(259,939)
Prior executive authorizations-state	3,157,469	-	(1,925,588)
Restricted receipts-state	74,687	-	42,845
Restricted revenue-state	19,285,513	-	23,587,076
Total	<u>\$ 26,793,158</u>	<u>\$ 18,020,000</u>	<u>\$ 52,154,769</u>
<u>Real Estate Recovery Fund</u>			
Current executive authorizations-state	\$ -	\$ 400,000	\$ -
Prior executive authorizations-state	84,495	-	-
Total	<u>\$ 84,495</u>	<u>\$ 400,000</u>	<u>\$ -</u>

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

Total Sources of Funds	Lapsed/ Expired	Encumbered	Expended	Total Applications of Funds	Balance June 30, 2002
\$ 42,334,375	\$ 626,000	\$ 12,446,896	\$ 29,261,479	\$ 42,334,375	\$ -
6,396,000	-	2,637,582	3,758,418	6,396,000	-
4,015,550	167,928	1,262,475	2,585,147	4,015,550	-
1,231,881	275	290,037	941,569	1,231,881	-
117,532	-	-	113,100	113,100	4,432
42,872,589	-	-	24,569,048	24,569,048	18,303,541
<u>\$ 96,967,927</u>	<u>\$ 794,203</u>	<u>\$ 16,636,990</u>	<u>\$ 61,228,761</u>	<u>\$ 78,659,954</u>	<u>\$ 18,307,973</u>
\$ 400,000	\$ -	\$ 393,144	\$ 6,856	\$ 400,000	\$ -
84,495	82,966	-	1,529	84,495	-
<u>\$ 484,495</u>	<u>\$ 82,966</u>	<u>\$ 393,144</u>	<u>\$ 8,385</u>	<u>\$ 484,495</u>	<u>\$ -</u>



**STATEMENT OF REVENUE AND RECEIPTS BY FUND-BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

DEPARTMENT OF STATE

	<u>Actual</u>	<u>Revenue Estimates</u>	<u>Over (Under) Revenue Estimates</u>
<u>General Fund</u>			
Licenses and fees	\$ 22,367,153	\$ 18,339,000	\$ 4,028,153
Fines and penalties	350,608	313,000	37,608
Miscellaneous revenue	41	*	*
Revenue augmenting current appropriations-state	25,514,375	26,289,000	(774,625)
Revenue augmenting current executive authorizations-state	5,196,000	4,596,000	600,000
Revenue augmenting prior appropriations-state	(259,939)	*	*
Revenue augmenting prior executive authorizations-state	(1,925,588)	*	*
Restricted receipts-state	42,845	*	*
Restricted revenue-state	23,587,076	*	*
Total	<u>\$ 74,872,571</u>		
<u>Real Estate Recovery Fund</u>			
Licenses and fees	<u>\$ 47,944</u>	<u>\$ 68,000</u>	<u>\$ (20,056)</u>

* Nonbudgeted

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

**STATUS OF ALLOTMENTS BY MAJOR OBJECT BY FUND-BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

DEPARTMENT OF STATE

	Applications of Funds	
	Encumbered	Expended
<u>General Fund</u>		
Personnel services	\$ 2,976,481	\$ 21,693,754
Operational expenses	13,387,649	14,258,329
Fixed assets	165,356	93,175
Subsidies and grants	107,504	501,355
Nonexpense items	-	24,682,148
Unrealized allotments	-	-
	<u> </u>	<u> </u>
Total	\$ 16,636,990	\$ 61,228,761
	<u> </u>	<u> </u>
<u>Real Estate Recovery Fund</u>		
Subsidies and grants	\$ 393,144	\$ 8,385
	<u> </u>	<u> </u>

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

<u>Lapsed</u>		<u>Total</u>	<u>Budgeted Allotments</u>	<u>(Over) Under Budgeted Allotments</u>
\$ 12,967	\$ 24,683,202	\$ 25,171,570	\$ 488,368	
146,125	27,792,103	29,030,166	1,238,063	
-	258,531	292,251	33,720	
9,111	617,970	617,970	-	
-	24,682,148	-	(24,682,148)	
-	-	40,629,970	40,629,970	
<u>\$ 168,203</u>	<u>\$ 78,033,954</u>	<u>\$ 95,741,927</u>	<u>\$ 17,707,973</u>	
<u>\$ 82,966</u>	<u>\$ 484,495</u>	<u>\$ 484,495</u>	<u>\$ -</u>	

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

DEPARTMENT OF STATE

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Department of State (department) receives and expends monies from the General Fund and the Real Estate Recovery Fund. The accompanying financial statements report, by fund, the revenue, receipts and expenditures for which the department has been designated as the receiving or disbursing agency, and do not report all transactions of those funds. Accordingly, the accompanying financial statements report the budgetary operations and conditions at the department 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 department is responsible for operating its programs within these allocation amounts.

The accounting records of the department 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. Accordingly, the department's financial statements report the projected financial program, as reflected in the revenue estimates and expenditure authorizations, and the financial program ultimately carried out, as reflected in the actual revenue and expenditure accounts for the period.

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

Certain appropriations, which are generally in nonspecified amounts, are also made:

- . Certain revenue is appropriated to augment current appropriations.
Unencumbered balances of such appropriations lapse at year-end.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

DEPARTMENT OF STATE

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Certain special types of restricted revenue and receipts are appropriated for purposes unrelated to a specific current or continuing appropriation. Balances of these restricted appropriations are carried forward into the next fiscal year.

Basis of Accounting: The department uses a prescribed basis of accounting that demonstrates compliance with the budget laws of the Commonwealth of Pennsylvania, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Generally, the department 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 \$2,322,262 at June 30, 2002. It is the department's policy to record the cost of annual and sick leave when paid.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

DEPARTMENT OF STATE

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.

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 Commonwealth's composite contribution rate, paid on a percent of employee compensation, was 0.00 percent for the fiscal year ended June 30, 2002. The department's retirement contribution was \$30,800, which represents employees' purchases of prior qualifying service.

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 department 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 department recognizes the cost of providing these benefits, which for the fiscal year ended June 30, 2002, totaled \$1,398,986, as paid.

NOTE C - CONTINGENT COMMITMENTS

During the fiscal year ended June 30, 2002, the department 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, 2002, were \$5,415,004.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

DEPARTMENT OF STATE

NOTE D - INTRAFUND TRANSFERS

The Bureau of Professional and Occupational Affairs (BPOA), State Athletic Commission, and the Corporation Bureau are responsible for collecting fees, charges, and fines under state laws. These revenues are deposited as augmentations into restricted revenue accounts established by laws. Revenues for all BPOA boards, except the State Board of Medicine, the State Board of Osteopathic Medicine and the State Board of Podiatry, are deposited into a restricted Professional Licensure Augmentation Account (PLAA). Separate restricted revenue accounts are maintained for the other three boards and the commission. Also, 30 percent of revenue collected by the Corporation Bureau is deposited into a restricted revenue account. From the restricted revenue accounts, the General Assembly annually appropriates monies for BPOA and the State Athletic Commission, and the Governor executively authorizes monies for the Corporation Bureau. The transfers from the restricted revenue accounts for the fiscal year ended June 30, 2002, were:

	<u>Transfers From Restricted Revenue Accounts</u>
PLAA	\$17,862,000
State Board of Medicine	3,523,000
State Board of Osteopathic Medicine	632,000
State Board of Podiatry	181,000
State Athletic Commission	346,000
Corporation Bureau	<u>4,596,000</u>
Total	<u>\$27,140,000</u>

BPOA and State Athletic Commission monies are transferred to current state appropriation accounts and Corporation Bureau monies are transferred to an executive authorization account to pay operational costs. Prior state appropriation and executive authorization account balances in excess of operational costs are eliminated by transferring monies back to the restricted revenue accounts. These transfers of monies are included on the Statement of Revenue and Receipts by Fund-Budgetary Basis as negative revenue augmenting prior appropriations-state and prior executive authorizations-state. For the fiscal year ended June 30, 2002, these amounts were (\$259,939) and (\$1,925,588), respectively.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

DEPARTMENT OF STATE

NOTE E - RECONCILIATION OF THE STATUS OF APPROPRIATIONS BY FUND-BUDGETARY BASIS TO THE STATUS OF ALLOTMENTS BY MAJOR OBJECT BY FUND-BUDGETARY BASIS

The following presents a reconciliation of the Status of Appropriations by Fund-Budgetary Basis to the Status of Allotments by Major Object by Fund-Budgetary Basis for the fiscal year ended June 30, 2002:

	<u>TOTAL SOURCES OF FUNDS</u>	<u>TOTAL APPLICATIONS OF FUNDS</u>	<u>BALANCE JUNE 30, 2002</u>
<u>GENERAL FUND</u>			
STATUS OF APPROPRIATIONS BY FUND-BUDGETARY BASIS:	\$ 96,967,927	\$ 78,659,954	\$ 18,307,973
Reconciling Items:			
Unallotted funds	(1,226,000)	-	(1,226,000)
Lapse of unallotted funds	<u>-</u>	<u>(626,000)</u>	<u>626,000</u>
STATUS OF ALLOTMENTS BY MAJOR OBJECT BY FUND-BUDGETARY BASIS:			
Budgeted Allotments	<u>\$ 95,741,927</u>		
Total Applications of Funds		<u>\$ 78,033,954</u>	
(Over) Under Budgeted Allotments			<u>\$ 17,707,973</u>

COMPLIANCE AND INTERNAL CONTROL SECTION



**Report on Compliance and on Internal Control Over Financial Reporting
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 statements of the Department of State for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 8, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the Department of State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement 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, with respect to the items tested, no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the Department of State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements 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.

This report is intended solely for the information and use of the management of the Department of State, 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,

December 8, 2005

JACK WAGNER
Auditor General

DISTRIBUTION

**DEPARTMENT OF STATE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
DISTRIBUTION LIST**

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

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

Chairman
Senate Majority Appropriations Committee
281 Main Capitol Building
Harrisburg, PA 17120

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

The Honorable Brett Feese
Chairman
House Majority Appropriations Committee
245 Main Capitol Building
Harrisburg, PA 17120

The Honorable Robert M. Tomlinson
Chairman
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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The Honorable Joseph Martz
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Mr. Philip R. Durgin, Executive Director
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400 Finance Building
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The Honorable Roger A. Madigan
Chairman
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108 Finance Building
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The Honorable Donald L. Patterson
Inspector General
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101 South Second Street, 3rd Floor
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Harrisburg, PA 17120

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Secretary of the Commonwealth
Department of State
302 North Office Building
Harrisburg, PA 17120

Mr. John J. Smolock (2)
Comptroller
Department of State
11th Floor, Strawberry Square
Harrisburg, PA 17128

The Honorable Robert P. Casey, Jr. (2)
State Treasurer
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.