STATE OF CONNECTICUT

AUDITORS' REPORT
STATE ETHICS COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

AUDITORS OF PUBLIC ACCOUNTS

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May 20, 2002

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We have examined the financial records of the State Ethics Commission for the fiscal years ended June 30, 2000 and 2001.

Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the State Ethics Commission's compliance with certain provisions of financial related laws, regulations, and contracts, and evaluating the internal control structure policies and procedures established to insure such compliance.

This report on our examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The State Ethics Commission is authorized by Title 1, Chapter 10 of the Connecticut General Statutes. The Commission is composed of seven members appointed with the advice and consent of the General Assembly. Of these, one member is appointed by the Speaker of the House of Representatives, one member by the President Pro Tempore of the Senate, one member by the Minority Leader of the Senate, one member by the Minority Leader of the House of Representatives and three members by the Governor. As of June 30, 2001, the members were as follows:

	Term Expires September 30,
Rosemary E. Giuliano, Chairperson	2001
Richard F. Vitarelli, Vice Chairperson	2004
Joan B. Jenkins	2001
Jeffrey R. Partridge	2001
Barry C. Pinkus	2003
John J. Woodcock, III	2003
Christopher J. Smith	2005

During the audited period, the following individuals also served on the Commission.

Stanley H. Burdick
Reverend L. Kenneth Fellenbaum
Felix Karsky

Officers:

Alan S. Plofsky served throughout the audited period as Executive Director and General Counsel to the State Ethics Commission.

RÉSUMÉ OF OPERATIONS:

Overview:

The State Ethics Commission is within the executive branch of government. Operations of the Agency are funded out of the General Fund. The Executive Director/General Counsel is appointed by the State Ethics Commission and is a "classified" employee subject to the civil service rules.

The Commission administers and enforces a code of ethics for public officials and State employees as well as a code of ethics for lobbyists. Lobbyists who receive or spend more than $2,000 per calendar year must be registered with the Ethics Commission and prepare periodic financial reports for submission to the Commission. The Commission also investigates alleged violations of the codes and may file complaints as a result. In addition, it issues "advisory opinions" interpreting the codes and Commission regulations.

The State Ethics Commission is responsible for enforcing the provisions of Chapter 10 of the Connecticut General Statutes through independent staff investigations and Commission hearings.

Complaints may be filed by either the Commission or by the public. Once filed, a preliminary hearing is held which may result in the holding of a public hearing which is presided over by a State trial referee. The Commission sits as a jury. There is a right of appeal, to the State's Superior Court, of the Commission's final decision. As an alternative, complaints may be resolved at any time during the process by the parties entering into a stipulated agreement. The Commission is empowered to levy civil penalties and issue cease and desist, or other orders.

General Fund Receipts:

General Fund receipts during the fiscal years ended June 30, 2000 and 2001 are presented below. Data from the prior fiscal year ended June 30, 1999 is also presented for comparative purposes:

	1998-1999	1999-2000	2000-2001
Lobbyist and Witness Fees	$418,150	$79,950	$452,300
Civil Penalties	58,500	32,750	70,933
Other	1,548	1,610	3,058
Total General Fund Receipts	$478,198	$114,310	$526,291

The wide swing in lobbyist fees collected reflects the fact that under Section 1-95 of the Connecticut General Statutes, lobbyists are required to register with the Ethics Commission for a two-year period coinciding with the odd-numbered years.

General Fund Expenditures:

General Fund expenditures during the fiscal years ended June 30, 2000 and 2001 are presented below. Data from the prior fiscal year ended June 30, 1999 is also presented for comparative purposes:

	1998-1999	1999-2000	2000-2001
Personal Services	$605,485	$700,901	$672,741
Lobbyist Electronic Filing Program	0	198,601	43,790
Contractual Services	69,939	50,977	165,747
Commodities	29,363	28,468	25,993
Others	976	375	0
Total General Fund Expenditures	$705,763	$979,322	$908,271

Total expenditures rose by $273,559, or approximately 39 percent, from the 1998-1999 to the 1999-2000 fiscal years. The leading contributing factor of this increase is represented by the development, and subsequent implementation, of an on-line lobbyist registration system pursuant to certain requirements of Public Act 97-5 (June 18, Special Session). We are presenting additional comments and analyses of this on-line registration system in the Program Evaluation section of this report. Personal service expenditures also rose substantially in light of both routine salary rate increases and a one-time $35,000 negotiated settlement payment made to a former Agency employee, in accordance with the terms of a stipulated separation agreement.

From the 1999-2000 to the 2000-2001 fiscal years, total expenditures declined by $71,051, or approximately seven percent. The decline in overall expenditures is primarily attributed to the fact that the on-line lobbyist registration system had largely been implemented in the preceding fiscal year. Expenditures for contractual services, however, increased markedly due to the use of special counsel in connection with the investigation of finders and finder's fees paid for investment transactions entered into by the State Treasurer's Office. We also noted that the decline in personal service expenditures largely reflects the atypical nature of the separation settlement taking effect in the prior year, while routine salary rate increases were essentially offset by an employee resignation resulting in an upper-level position vacancy for the second half of the 2000-2001 fiscal year. At the close of the audited period, the Agency's staff consisted of nine full-time employees.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. Operations of the State Ethics Commission were affected by Sections 5, 6, and 7 of Public Act 97-5 (June 18, Special Session) with Sections 5 and 6 of the Act being subsequently codified under Section 1-96 of the General Statutes. Following are the highlights of our review, through which we present certain remarks evidencing the Agency's satisfaction of the electronic filing system requirements of the Act during the audited period.

Commencing with the 1999-2000 fiscal year, we noted that the Agency received initial program funding in the amount of $200,000, as provided through an allocation of the prior year's Statewide appropriations surplus. Our review and analysis of 1999-2000 fiscal year program expenditures disclosed that the Agency had expended the bulk of such available resources for the development and initial implementation of the electronic filing system and to provide for a secured on-line payment system for all related registration fees. Additional funding, made available in the ensuing 2000-2001 fiscal year, was again primarily expended for outside consultant services. Such services amounted to $42,785 and were primarily used for further system enhancements. For comparison purposes, program expenditures are shown below:

	1999-2000	2000-2001
Outside Consultants	$134,146	$ 42,785
Data Processing Hardware and Supplies	37,117	498
Telecommunications	26,781	0
Miscellaneous	557	507
Total Program Expenditures	$198,601	$ 43,790

According to Section 5 of the Act, each lobbyist registrant required to file any financial reports under Section 1-96 of the General Statutes, as amended, was required to do so in electronic form. Additionally, the Agency was to have provided training in the proper use of the software selected to facilitate the systematic electronic filing of all such required lobbyist financial report data. As part of our review, we confirmed that the Agency's electronic filing system has been exclusively used to accept and record all lobbyist financial information required under Section 1-96 of the General Statutes, as amended. We further noted that the Agency conducted approximately thirty electronic filing system training and demonstration sessions during the audited period, and has also dedicated a knowledgeable staff member to provide filing assistance to the public through an interactive help desk, accessible either on-line or by phone, during normal business hours.

According to Section 6 of the Act, the Commission was to have made all computerized data from financial reports required by Section 1-96 of the General Statutes, as amended, available to the public through (1) a computer terminal in the office of the Commission and (2) the internet or any other generally available on-line computer network. During the course of our review, we noted the presence and effective operation of both the Agency's in-house public terminal and current network of interrelated electronic filing, payment and searchable information systems which can be readily accessed through the Agency's internet website at www.ethics.state.ct.us.

According to Section 7 of the Act, the Commission was to have submitted a report to the Joint Standing Committee of the General Assembly having cognizance of matters relating to ethics, in accordance with provisions of Section 11-4 of the General Statutes. This report was to have set forth the Commission's findings on the implementation of Sections 5 and 6 of the Act, and was due by February 1, 2000. The Agency submitted its report to the Government Administration and Elections Committee on March 15, 2000. We were informed that a delayed submission was considered necessary in order to provide a comprehensive summarization of the Agency's electronic network in its fully operational phase. In all other respects, the submitted report appeared to indicate an acceptable level of compliance with the requirements of this Section of the Act.

In conclusion, we believe the Agency achieved an overall satisfactory level of compliance with the Act during the audited period. Moreover, the Agency has demonstrated an ongoing commitment towards attaining greater operational efficiencies through its successful adoption of convergent digital technologies.

CONDITION OF RECORDS

Our examination of the records of the State Ethics Commission disclosed no matters requiring Agency attention.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit covering the 1997-1998 and 1998-1999 fiscal years contained three recommendations. All have been implemented or otherwise resolved as described below.

Prior Audit Recommendations:

- Written procedures should be established to ensure that as far as possible the duties of the Fiscal Officer are covered in her absence. Our current audit noted that the Commission has both instituted formal procedures and provided adequate cross-training so that key fiscal office responsibilities can be accomplished in a timely manner without interruption in the event of staff absences. We consider this recommendation as having been satisfactorily implemented.

- Written procedures should be established, based upon the instructions provided by the State Accounting Manual requiring that expenditures must only be made against appropriate pre-approved appropriations. Care should also be taken to use appropriate expenditure codes. Our current audit noted that formal fiscal office procedures have been instituted and found no instances involving the inappropriate charging of expenditures against established appropriations. During the 1999-2000 fiscal year, we noted several expenditure miscodings of data processing hardware which bore no material or significant negative implications concerning the Agency's adherence to the State Comptroller's established centralized accounting controls. These miscodings were brought to the attention of Agency management to prevent their recurrence. No such clerical miscodings were noted to have occurred during the 2000-2001 fiscal year.

- Internal control over expenditures should be improved as far as is practical by segregating the duties of requesting, ordering, receiving and authorizing payment. Basic written procedures should be put in place requiring evidence of a request for goods or services before they are ordered and evidence of the satisfactory receipt of goods or services before invoices are approved for payment. Our current audit noted the establishment of procedures which address our concerns over the formal submission and authorization of purchase requests. Such procedures also require the proper receipting of goods or services before an invoice can be approved for payment. Moreover, the duties associated with requesting, ordering and receiving goods or services, along with the associated prerequisite authorization for permitting vendor payment, appear to have been segregated to the fullest extent practical within the limitations imposed upon an agency consisting of nine active employees.

Current Audit Recommendations:

There were no recommendations developed as a result of this audit examination.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Ethics Commission for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, and contracts and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations and contracts applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the State Ethics Commission for the fiscal years ended June 30, 2000 and 2001, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related 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 State Ethics Commission complied in all material or significant respects with the provisions of certain laws, regulations and contracts and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations and contracts applicable to the State Ethics Commission is the responsibility of the State Ethics Commission's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws and regulations, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws and regulations. However, providing an opinion on compliance with these 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*.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the State Ethics Commission is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations and contracts applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the State Ethics Commission financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant 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 noncompliance with certain provisions of laws, regulations, contracts, and grants or failure to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency 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 internal control that we consider to be material or significant weaknesses.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the State Ethics Commission greatly facilitated the conduct of this examination.

Marc Amutice
Staff Auditor

Approved:

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts