STATE OF CONNECTICUT

AUDITORS' REPORT
STATE ETHICS COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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May 17, 2004

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STATE ETHICS COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003

We have examined the financial records of the State Ethics Commission for the fiscal years ended June 30, 2002 and 2003.

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 and operates under 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, 2003, the members were as follows:

	Term Expires September 30,
Rosemary E. Giuliano, Chairperson	2001
Richard F. Vitarelli, Vice Chairperson	2004
Joan B. Jenkins	2001
John O'Connor	2005
Christopher J. Smith	2004
John J. Woodcock, III	2003
One vacancy	

Concerning the expired terms of Ms. Giuliano and Ms. Jenkins, per Section 1-80, subsection (a), of the General Statutes, members with expired terms may continue to serve "until a successor has been appointed and qualified. During the audited period, the following individuals also served on the Commission.

Jeffrey R. Partridge
Barry C. Pinkus

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 by the General Fund. The Executive Director/General Counsel is appointed by the State Ethics Commission and is a "classified" employee subject to civil service provisions.

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 issues cease and desist, or other orders.

General Fund Receipts:

General Fund receipts during the fiscal years ended June 30, 2002 and 2003, are presented below. Data from the prior fiscal year ended June 30, 2001, is also presented for comparative purposes:

	2000-2001	2001-2002	2002-2003
Lobbyist and Witness Fees	$452,300	$84,340	$447,325
Civil Penalties	70,933	54,973	15,400
Refunds of Expenditures – Prior Years		2,008	150,000
Other	3,058	310	125
Total General Fund Receipts	$526,291	$141,631	$612,850

The significant changes 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 each odd-numbered year. The significant increase in "Refunds of Expenditures – Prior Years" represents an amount that was awarded to the Commission for expenses related to an investigation performed.

General Fund Expenditures:

General Fund expenditures during the fiscal years ended June 30, 2002 and 2003, are presented below. Data from the prior fiscal year ended June 30, 2001 is also presented for comparative purposes:

	2000-2001	2001-2002	2002-2003
Personal Services	$672,741	$646,108	$ 737,387
Lobbyist Electronic Filing Program	43,790	41,753	41,822
Contractual Services	165,747	277,323	263,480
Commodities	25,993	29,385	28,320
Others	0	115	0
Total General Fund Expenditures	$908,271	$994,684	$1,071,009

Total expenditures increased $86,413, or approximately 9.5 percent, from the 2000-2001 to the 2001-2002 fiscal years, and $76,325, or approximately 7.7 percent, from the 2001-2002 and 2002-2003 fiscal years. The increase during the 2001-2002 fiscal year was primarily due to an increase in outside consulting services related to outside legal counsel relative to a State Treasurer investigation. The increase during the 2002-2003 fiscal year was primarily due to personal services expenditure increases related to collective bargaining increases.

CONDITION OF RECORDS

Our examination of the records of the State Ethics Commission disclosed the following matters of concern requiring disclosure and attention.

Miscoding of Receipts and Expenditures:

Background: The State Accounting Manual, issued by the Office of the State Comptroller, provides charts of accounts for agency receipts and expenditures.

Criteria: The proper coding of receipts and expenditures provides assurance that account balances presented in financial statements and analyses are accurate.

The Commission will often fine parties brought forward in an action by the Commission for a breach of laws, standards and/or rules enforced by the Commission. The receipt of such fines is normally coded as "Fines and Costs – Departments."

Condition: Our review of receipts disclosed that four of thirteen fines collected during the audited period, totaling $8,087, were coded as "Recording Fees", which is the account used to account for lobbyist filing fees.

Our review of expenditures disclosed that a $789 purchase of office equipment was coded as "outside professional services."

Effect: Receipt and expenditure summary reports were misstated by the amounts presented above.

Cause: A cause for this condition was not determined.

Recommendation: More care needs to be taken to ensure that receipts and expenditures are coded to the appropriate accounts. (See Recommendation 1.)

Agency Response: "We note and agree with your finding that five transactions were miscoded during the audit period. We will make our best efforts to insure this does not recur. However, to place the issue in context, this is an extremely small error rate, given the volume of our Business Manager's duties and workflow."

Collection of Fines:

Background: As noted in the "RÉSUMÉ OF OPERATIONS" section of this report, the Commission administers and enforces a code of ethics for public officials and State employees as well as a code of ethics for lobbyists. The Commission is empowered to levy civil penalties and issue cease and desist, or other orders.

Criteria: Tracking the receipt and deposit of all fines levied by the Commission is a good business practice that helps ensure that all Commission revenues are realized.

Condition: We reviewed Commission minutes for meetings held during the audited period and identified all fines imposed. Our review disclosed that one fine for $2,000 had not been collected. Commission staff were not aware that a receivable existed for the amount at the time of our review. When we brought this to the attention of Commission staff, the party involved was contacted and payment was made.

Effect: The fine would not have been collected if we had not tracked levied fines to collection and deposit.

Cause: It should be noted that the case examined was quite complex and had been in litigation for a significant period of time. Other material amounts were ultimately collected by the State Treasurers Office. During the period that this case was being settled there was also a change in Commission personnel which may have contributed to the oversight.

Recommendation: More care needs to be taken to ensure that all levied fines are collected and deposited. (See Recommendation 2.)

Agency Response: "We also note and agree that a $2,000 civil penalty was not timely collected; and was not, in fact, received until after you brought this to our attention. Again, we will endeavor to insure this does not recur. However, to also place this issue in context, the case in question, and related litigation, were extremely complex, extended over a period of years, and have resulted in the return of $150,000 in legal fees to the State. Furthermore, over time, the settlement of these cases will result in, at least, $1,750,000 being returned to the State's pension fund."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit covering the 1999-2000 and 2000-2001 fiscal years contained no recommendations

Current Audit Recommendations:

1. **More care needs to be taken to ensure that receipts and expenditures are coded to the appropriate accounts.**

   Comment:

   Our review of receipts disclosed that four of thirteen fines collected during the audited period, totaling $8,087, were coded as "Recording Fees", which is the account used to account for lobbyist filing fees.

   Our review of expenditures disclosed that a $789 purchase of office equipment was coded as "outside professional services."

2. **More care needs to be taken to ensure that all levied fines are collected and deposited.**

   Comment:

   We reviewed Commission minutes for meetings held during the audited period and identified all fines imposed. Our review disclosed that one fine for $2,000 had not been collected. Commission staff were not aware that a receivable existed for the amount at the time of our review. When we brought this to the attention of Commission staff, the party involved was contacted and payment was made.

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, 2002 and 2003. 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, 2002 and 2003, 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, 2002 and 2003, 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.

However, we noted certain matters involving the internal control over the Commission's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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 extended to our representatives during the course of our audit.

John A. Rasimas
Principal Auditor

Approved:

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