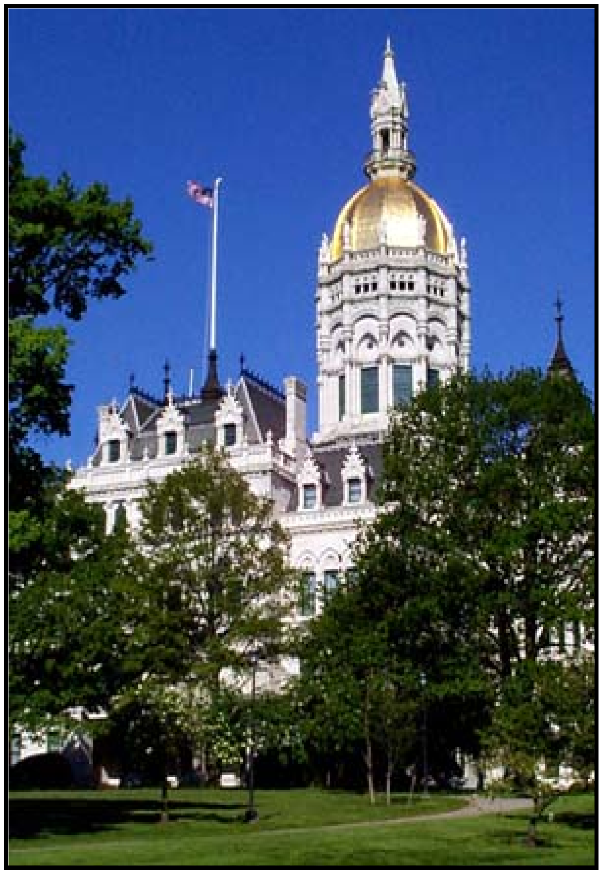
STATE OF CONNECTICUT



AUDITORS' REPORT
OFFICE OF STATE ETHICS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2010 AND 2011

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

Table of Contents

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

April 10, 2013

AUDITORS' REPORT
OFFICE OF STATE ETHICS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have examined the financial records of the Office of State Ethics for the fiscal years ended June 30, 2010 and 2011.

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 Office of State Ethics' compliance with certain provisions of financial related laws, regulations, and contracts, and evaluating the internal control structure policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The Office of State Ethics is authorized by and operates under Title 1, Chapter 10 of the Connecticut General Statutes. Section 1-80 subsection (a) of the General Statutes provides that the Office of State Ethics shall be an independent state agency and shall consist of an executive director, a general counsel, an ethics enforcement officer, and other staff. In addition, there is to be established within the Office of State Ethics, a Citizens Ethics Advisory Board.

The Citizens Ethics Advisory Board is composed of nine members. 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 majority leader of the Senate, one member by the minority leader of the Senate, one member by the majority leader of the House of Representatives, one member by the minority leader of the House of Representatives and three members by the Governor. As of June 30, 2011, the members were as follows:

	Term Expires September 30,
Thomas H. Dooley	2012
Mary Bigelow	2013
Kathleen Bornhorst	2011
Charles F. Chiusano	2013
David Gay	2013
Herbert A. Grant	2015
Roger Kemp	2015
Martin Margulies	2011
Dennis Riley	2013

Sister Sally J. Tolles, Robert Worgaftik, Rebecca Doty, Kenneth Bernard, Ernest N. Abate, Kathleen Bornhorst, Shawn T. Wooden, Winthrop S. Smith, Jr., and Martin Margulies also served on the Citizens Ethics Advisory Board during the audited period.

Carol Carson has served as executive director since December 17, 2007. Ms. Carson continues to serve in that capacity.

RÉSUMÉ OF OPERATIONS:

Overview:

The Office of State Ethics is within the Executive Branch of government. Operations of the agency are funded by the General Fund. The executive director is appointed by the Citizens Ethics Advisory Board.

The Office of State Ethics administers and enforces a code of ethics for public officials and state employees as well as a code of ethics for lobbyists. The agency also has limited jurisdiction over ethical considerations concerning bidding and state contracts. Lobbyists who receive or spend more than $2,000 per calendar year must register with the Office of State Ethics and submit periodic financial reports. The ethics enforcement officer investigates alleged violations of the codes. In addition, the general counsel issues advisory opinions interpreting the codes and the agency's regulations.

Complaints may be filed by either the board or by the public. Once filed, the enforcement division conducts an investigation, which may result in a hearing before a judge trial referee to determine whether probable cause exists for a violation of the code of ethics. If the judge trial referee finds such probable cause, the board initiates a hearing before a different judge trial referee, in which the board acts as a jury. There is a right of appeal, to the state's Superior Court, of the board'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 board 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, 2010 and 2011, are presented below:

	2009-2010	2010-2011
Lobbyist Fees	$ 60,470	$ 769,712
Civil Penalties	27,830	18,449
Photocopying	477	536
Total General Fund Receipts	**$ 88,777**	**$ 788,697**

The significant increase in lobbyist fees collected in fiscal year 2011 reflects the lobbyist registration schedule imposed by Section 1-95 of the General Statutes; lobbyists are required to register with the agency for a two-year period beginning in January of each odd-numbered calendar year. Lobbyists who commenced lobbying activities in an even-numbered year are required to pay half the normal fee in that year.

General Fund Expenditures:

General Fund expenditures during the fiscal years ended June 30, 2010 and 2011, are presented below:

	2009-2010	2010-2011
Personal Services	$1,353,784	$1,407,310
Other Expenses	124,127	73,402
Equipment	15,661	8,414
Information Technology Initiatives	34,683	20,431
Total General Fund Expenditures	**$1,528,255**	**$1,509,557**

Total expenditures decreased by $18,698 from fiscal year 2010 to fiscal year 2011, a decrease of less than two percent. The change in fiscal year 2011 can be attributed in part to a decrease in board member fees and costs for contractual services.

Subsequent Events:

The Connecticut General Assembly passed Public Act 11-48, An Act Implementing Provisions of the Budget Concerning General Government, during the 2011 regular session. Effective July 1, 2011, this act established the Office of Governmental Accountability, which consolidated the Office of State Ethics with eight other governmental agencies. These other agencies included the State Elections Enforcement Commission, the Freedom of Information Commission, the Judicial Review Council, the Judicial Selection Commission, the Board of Firearms Permit Examiners, the Office of the Child Advocate, the Office of the Victim Advocate, and the State Contracting Standards Board. The act merged and consolidated within the Office of Governmental Accountability the nine existing agencies' personnel, payroll, affirmative action, administrative, and business office functions. As a result of the consolidation, the Office of State Ethics ceased to exist as a separate and distinct state agency, though its independent decision-making authority remained unimpaired.

CONDITION OF RECORDS

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

Payroll and Personnel – Compensatory Time:

Criteria: Administrative and Residual (P-5) Collective Bargaining Unit Contract provides that only employees who are paid above salary grade 24 are eligible to receive compensatory time. Those employees below salary grade 24 should be paid overtime.

Condition: Our review of five instances of compensatory time earned revealed that two employees below salary group 24 received compensatory time rather than overtime as required by the contract.

Effect: The agency did not comply with the collective bargaining unit contract. Employees have accrued and used compensatory time rather than being paid overtime in accordance with the collective bargaining unit contract.

Cause: We were told that the agency had approved compensatory time for these employees due to budgetary conditions.

Recommendation: The Office of State Ethics should comply with provisions within collective bargaining unit contracts regarding compensatory time. (See Recommendation 1)

Agency Response: “The Office of State Ethics will comply with collective bargaining unit contracts regarding compensatory time in the future.”

Revenue and Receipts – Timely Deposits and Accounting:

Criteria: Section 4-32 of the Connecticut General Statutes requires agencies to deposit and account for receipts promptly. Receipts amounting to $500 or more must be deposited within 24 hours. Accounting for receipts should be completed by the day after the deposit information is made available to the agency through an interface between the bank and Core-CT, the state’s accounting system.

Condition: In a test of 25 lobbyist registration payments, 11 of which were made by check, we found that three deposits did not meet the 24-hour deposit timeframe requirement. One check in excess of $500 was deposited four days after receipt. One check for $16,750 consisting of multiple lobbyist registrations was deposited three days after receipt. One check for $8,000 consisting of multiple lobbyist registrations was deposited three days after receipt.

We also found that the deposits for four of the 25 transactions, representing 16 percent of our sample, were posted to the general ledger more than four business days after the deposit information was made available through the bank/Core-CT interface.

Effect: The agency is not in compliance with the requirements of section 4-32 of the General Statutes. Retention of checks increases the risk of loss or misappropriation.

Cause: We were unable to determine a cause for this deficiency.

Recommendation: The Office of State Ethics should improve its controls to ensure that receipts are deposited and recorded promptly, in accordance with section 4-32 of the General Statutes. (See Recommendation 2)

Agency Response: "The Office of State Ethics has improved its controls to ensure that receipts are deposited and recorded promptly."

Consultant Services:

Background: The State of Connecticut, Department of Administrative Services (DAS), has contracted with Tri-Com Consulting Group, LLC to provide IT professional services to state agencies. The Office of State Ethics entered into an agreement based on this contract, with Tri-Com. Tri-Com was hired to perform design and support services for the creation of the agency's Lobbyist and Statement of Financial Interest (SFI) System.

Criteria: All payments for contractual services should be based on payment terms contained in the applicable contract.

Condition: Two contracts were in effect during the time services were rendered. The original contract was effective December 14, 2004 through February 2, 2010 and the new contract effective February 1, 2010 through January 31, 2013. Pay rates are based on pre-established rate schedules, authorized by DAS. The original contract rates were amended with a memo dated April 24, 2009, submitted by Tri-Com. This memo reduced rates for certain employees performing work at select state agencies. We confirmed with DAS that the rates were in effect April 24, 2009. The Office of State Ethics was listed in the memo, which included the project along with several Tri-Com employees. The memo indicated that the rate reduction was made in response to a request from the Governor, who ordered a comprehensive review of all state contracts. Rates on the new contract were subsequently increased based on a new rate schedule.

Our review of three payments to Tri-Com Consulting Group, LLC disclosed one overpayment in the amount of $48.32. We reviewed the invoice, noting services rendered between December 2009 and March 2010. The billing period covered both contract periods; however charges were based entirely on the new contract rate. The invoice was not prorated to include the lower rates effective during the previous contract period.

We expanded our sample to review all invoices involving the employees listed in the memo. Overpayments were identified for an additional seven invoices totaling $1,182.

Effect: The Office of State Ethics was overcharged for consulting services rendered.

Cause: We were told by the agency that they consulted with the Department of Administrative Services (DAS) concerning the reduced rates and were informed that the rates were not applicable to the project. The Office of State Ethics was unable to provide documentation to support this claim.

Recommendation: The Office of State Ethics should implement review procedures to ensure all invoices are paid based on the correct rates, established in accordance with state contracts. Efforts should be made to recover the overpaid funds. (See Recommendation 3.)

Agency Response: "The Office of State Ethics

- made payments following discussions with DAS regarding when the rate change was effective and followed DAS guidance; and
- will seek reimbursement for the overpayments."

Asset Management:

Criteria: Section 4-36 of the General Statutes requires each state agency to establish and maintain an inventory record as prescribed by the State Comptroller. The State Property Control Manual establishes the standards and sets reporting requirements for maintaining an inventory system to provide for complete accountability and safeguarding of assets.

An Asset Management/Inventory Report (CO-59), which lists all capitalized real and personal property must be submitted to the State Comptroller in the prescribed format. Additions and deletions to the CO-59 report should be accurate and property documented. Property having a value of $1,000 or more must be reported to the State Comptroller by October 1st of each year.

Condition: Our review of the equipment inventory records and the CO-59 annual inventory report disclosed the following:

- The agency recorded deletions of $11,720.55 on the CO-59 for fiscal year 2011. We were unable to reconcile this amount with the supporting documentation on file.
- We confirmed that the CO-59 was not received by the State Comptroller for fiscal year 2011.
- The fiscal year 2011 inventory was overstated by $1,179. We noted an item listed as capitalized; however, it should have been listed as controllable.

Effect: The agency was not in compliance with Section 4-36 of the General Statutes relative to the submission of the CO-59 report. Information listed on the CO-59 was not fully supported by detailed inventory records.

Cause: A lack of administrative controls and clerical errors contributed to this condition.

Recommendation: The Office of State Ethics should implement procedures to ensure that all amounts stated on the CO-59 inventory report are accurate and are supported by detailed records. The agency should also ensure that the CO-59 is submitted annually as required. (See Recommendation 4)

Agency Response: "The Office of State Ethics, working closely with the Office of the Comptroller (OSC), built its inventory from scratch in fiscal year 2010 to address ongoing errors in its inventory and the lack of supporting documentation resulting from the transition from the former State Ethics Commission to the OSE. On the advice of the OSC, deletions of $11,720.55 were recorded for 2010. Previous reports incorporated many assets that were under $1,000, which were controllable assets and improperly recorded on the CO-59. These controllable assets were removed from the CO-59. In addition, assets that no longer exist but were never removed from previous CO-59 reports were deleted.

An original copy of the 2011 CO-59 report was submitted on May 26, 2011 following the completion of the FY 2011 inventory. The OSE did not receive any notice that it was not received by the Comptroller's office; a copy of this report was resubmitted on September 18, 2012. The OSE will timely submit future CO-59 reports.

The 2011 inventory has been corrected to accurately reflect current capitalized inventory. By way of explanation, a computer was improperly listed as a capitalized asset with a value of $1,179. It is now properly listed as a controllable asset with a value of $499."

RECOMMENDATIONS

Our prior report contained five recommendations. Three of these recommendations have been resolved, while two of these recommendations have been modified to reflect the results of the current audit. This report contains four recommendations.

Status of Prior Audit Recommendations:

1. The agency should adhere to its policy requiring both employee and supervisory authorization on timesheets and take steps to ensure that all attendance and leave records are accurate and adequately documented. We found that the conditions noted in the prior audit have been corrected.

2. The Office of State Ethics should improve its controls to ensure that receipts are deposited and recorded promptly, in accordance with section 4-32 of the Connecticut General Statutes**.** This recommendation has been restated. (See Recommendation 2.)

3. The Office of State Ethics should improve its internal controls over receipts to ensure segregation of duties and proper accountability for lobbyist registration revenues. We found that the conditions noted in the prior audit have been corrected.

4. The agency should develop and implement internal controls over purchasing, receiving, and expenditures that include processes for verifying receipt of goods and services, requiring accurate and complete documentation from vendors, and compliance with state laws and regulations. We found that the conditions noted in the prior audit have been corrected.

5. The Office of State Ethics should continue its efforts to bring its inventory data up to date, and ensure that future CO-59 reports are accurate and are supported by detailed records. The agency has made improvements in asset control, but record-keeping is not adequate. This recommendation has been restated in modified form. (See Recommendation 4.)

Current Audit Recommendations:

1. The Office of State Ethics should comply with provisions within collective bargaining unit contracts regarding compensatory time.

Comment:

Our review disclosed that two employees, below salary grade 24, were paid compensatory time rather than overtime as required by the collective bargaining unit contract.

2. **The Office of State Ethics should improve its controls to ensure that receipts are deposited and recorded promptly, in accordance with section 4-32 of the Connecticut General Statutes**.

   Comment:

   Our review disclosed that three deposits were not recorded in Core-CT in a timely manner. In addition, four of 25 transactions were posted to the general ledger more than four business days after the deposit information was made available through the bank/Core-CT interface.

3. **The Office of State Ethics should implement review procedures to ensure all invoices are paid based on established rates in accordance with state contracts. Efforts should be made to recover the overpaid funds.**

   Comment:

   Our review of several invoices disclosed overpayments resulting from incorrect pay rates charged for services rendered.

4. **The Office of State Ethics should implement procedures to ensure that all amounts stated on the CO-59 inventory report are accurate and are supported by detailed records. The agency should also ensure that the CO-59 is submitted annually as required.**

   Comment:

   Our review of equipment inventory records and the CO-59 annual inventory report disclosed that deletions recorded on the fiscal year 2011 CO-59 report could not be reconciled to the supporting documentation. In addition, inventory was overstated by $1,179. We confirmed that the CO-59 for fiscal year 2011 was not received by the Office of the State Comptroller.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Office of State Ethics for the fiscal years ended June 30, 2010 and 2011. This audit was primarily limited to performing tests of the agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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, contracts and grant agreements applicable to the agency are complied with, (2) the financial transactions of the agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the agency are safeguarded against loss or unauthorized use. The financial statement audits of the Office of State Ethics for the fiscal years ended June 30, 2010 and 2011 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 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 Office of State Ethics complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements, and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

Management of the Office of State Ethics is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Office of State Ethics' internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Office of State Ethics' internal control over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the agency's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Agency's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies Recommendation 1: Payroll and Personnel - Compensatory Time, Recommendation 2: Revenue and Receipts - Timely Deposits and Accounting, and Recommendation 3: Revenue and Receipts - Revenue Accountability. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Office of State Ethics complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

This report is intended for the information and use of agency management, 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 cooperation and courtesy shown to our representatives by the personnel of the Office of State Ethics during this examination.

Michael A. Haynes
Auditor 2

Approved:

John C. Geragosian	Robert M. Ward
Auditor of Public Accounts	Auditor of Public Accounts