

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF STATE ETHICS
FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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January 20, 2021

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of State Ethics for the fiscal years ended June 30, 2017, 2018 and 2019. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies and the need for changes in management practices that warrant the attention of management. The significant findings and recommendations are presented below:

Page 7	The Office of State Ethics did not file a total of four reports required by sections 1-81(a)(6) and 1-92(f) of the General Statutes for the fiscal years ended June 30, 2017 and 2018. The Office of State Ethics should promptly file its required annual reports. The reports should include all statutorily required information. (Recommendation 1.)
Page 7	Our examination of 15 receipts, totaling \$8,750, noted that the Office of State Ethics deposited 10 of the 15 two to 11 days late. The Office of State Ethics should strengthen controls to ensure that it promptly deposits receipts in accordance with Section 4-32 of the General Statutes. (Recommendation 2.)
Page 8	The Office of State Ethics did not perform its physical inventory for the fiscal year ended June 30, 2019. The Office of State Ethics should perform an annual physical inventory as required by the Office of the State Comptroller’s Property Control Manual. (Recommendation 3.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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ROBERT J. KANE

January 20, 2021

AUDITORS' REPORT

We have audited certain operations of the Office of State Ethics in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2017, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. Our testing is not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the

department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the department. For the areas audited, we reached the following conclusions:

1. Identified deficiencies in internal controls;
2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Identified need for improvements in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Office of State Ethics.

COMMENTS

FOREWORD

The Office of State Ethics (OSE) is authorized by, and operates under, Title 1, Chapter 10 of the Connecticut General Statutes. Section 1-80 (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, general counsel, ethics enforcement officer, and other staff. The office's mission is to practice and promote the highest ethical standards and accountability in state government by providing education and legal advice, ensuring disclosure, and impartially enforcing the Codes of Ethics. In addition, the Citizens Ethics Advisory Board (CEAB) within the Office of State Ethics adjudicates cases brought under the Code of Ethics, determines findings of violations, and issues advisory opinions.

The Citizens Ethics Advisory Board has nine members. Of these, the speaker of the House of Representatives, president pro tempore of the Senate, majority leader of the Senate, minority leader of the Senate, majority leader of the House of Representatives, and minority leader of the House of Representatives each appoint one member. The Governor appoints the remaining three members. As of June 30, 2019, the members were:

Appointed by the Governor:

Dena M. Castricone
Nathana Beth Cook
Jason K. Farrell

Term Expires:

September 30, 2022
September 30, 2020
September 30, 2020

Appointed by the President Pro Tempore of the Senate:

Kevin P. Johnston

September 30, 2022

Appointed by the Speaker of the House of Representatives:

Richard D. Lang September 30, 2019

Appointed by the Majority Leader of the Senate:

Mary Bigelow September 30, 2021

Appointed by the Majority Leader of the House of Representatives:

Nichelle Mullins September 30, 2019

Appointed by the Minority Leader of the Senate:

Charles F. Chiusano September 30, 2021

Appointed by the Minority Leader of the House of Representatives:

Cheryl Lipson September 30, 2019

Reverend Tommie Lee Jackson and Daniel M. Young also served on the board during the audited period. The Citizens Ethics Advisory Board appoints the executive director. Carol Carson served as the executive director throughout the audited period. Ms. Carson retired effective August 1, 2019. Peter Lewandowski immediately succeeded her and continues to serve as executive director.

Significant Legislation

Public Act 16-3 (Section 69) of the May Special Session, effective July 1, 2016, amended Section 1-80 of the General Statutes to repeal the Office of Government Accountability and reestablish the Office of State Ethics as an independent agency.

Public Act 17-235, effective October 1, 2017, made several changes affecting the Citizens Ethics Advisory Board and Office of State Ethics. It allowed CEAB members to serve multiple terms and eliminated requirements that certain board appointments be selected from a prepared list. It also allowed CEAB members and OSE employees to make certain political contributions, and for CEAB members to serve in unpaid state government positions during the one-year period after they leave the board. It restated, from six members to two-thirds of those members present and voting, the threshold required for the board to find a violation of the Codes of Ethics or impose a civil penalty. The act also changed how and when judgments or delays can proceed.

Public Act 18-64, effective October 1, 2018, required public officials and state employees to file a report with the Office of State Ethics within 30 days after receiving certain goods or services under the “gift to the state” exception under the Code of Ethics. The report must be filed on an electronic form prescribed by the CEAB and certified under penalty of false statement that the received goods or services facilitated state action or functions. Officials or employees who fail to report within the 30 days must return the value of the goods or services to the donor and may be subject to additional penalties.

RÉSUMÉ OF OPERATIONS

The Office of State Ethics is within the Executive Branch and its operations are funded by the General Fund. OSE administers and enforces codes of ethics for public officials, state employees, and lobbyists. The office also has limited jurisdiction over ethical considerations concerning bidding and state contracts. Lobbyists who receive or spend more than \$3,000 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 and the general counsel issues advisory opinions interpreting the codes and agency regulations.

A complaint may be filed either by the board or the general public. Once filed, the enforcement division conducts an investigation, which may result in a hearing before a judge trial referee to determine whether there is probable cause for a Code of Ethics violation. If the judge trial referee finds such probable cause, the board initiates a hearing before a different judge trial referee, and the Citizens Ethics Advisory Board acts as a jury. The alleged violator may appeal the board's final decision to the Superior Court. The parties can resolve complaints at any time during the process through a stipulated agreement. The board is empowered to levy civil penalties and issue cease and desist orders.

General Fund Receipts

General Fund receipts during the fiscal years ended June 30, 2017, 2018, and 2019 are presented below:

	Fiscal Year Ended June 30,		
	2016-2017	2017-2018	2018-2019
Recording Fees	\$ 876,150	\$ 102,750	\$ 856,625
Civil Penalties Imposed	25,780	35,949	54,385
Photocopying	802	59	212
Total General Fund Receipts	\$ 902,732	\$ 138,758	\$ 911,222

The significant decrease in recording fees collected in fiscal year 2018 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 that 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, 2017, 2018, and 2019 are presented below:

Fiscal Year Ended June 30,

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
Personal Services	\$ 1,306,293	\$ 1,350,191	\$ 1,340,068
Purchased and Contracted Services	125,147	156,994	178,934
Total General Fund Expenditures	<u>\$ 1,431,440</u>	<u>\$ 1,507,185</u>	<u>\$ 1,519,002</u>

General Fund expenditures increased 5.29% from fiscal year 2017 to 2018, primarily due to a 3.3% increase in salaries and wages, and information technology consulting services, and hardware purchases. General Fund expenditures increased 0.78% from fiscal year 2018 to 2019 due to a slight increase in purchased and contracted services.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of State Ethics disclosed the following 4 findings and 3 recommendations, of which one has been repeated from the previous audit:

Documentation of Internal Control Self-Assessment

<i>Background:</i>	In the interest of promoting responsible, efficient, and cost-effective governance, the Office of the State Comptroller issues the Internal Control Guide as a tool to assist agencies in evaluating and strengthening internal controls. The annual self-evaluation and risk assessment process allows managers to evaluate internal controls and identify possible deficiencies within their areas of responsibility.
<i>Criteria:</i>	The Office of the State Comptroller issues an annual memorandum reminding agency heads to conduct an annual internal control self-assessment as required by the Internal Control Guide. In accordance with the guide, agency management personnel are responsible for establishing and maintaining effective internal controls. Agencies must complete the internal control self-assessment annually by June 30th and keep it on file. Agencies should complete the review of the self-assessment questions and create a report noting weaknesses and recommendations for improvements.
<i>Condition:</i>	The Office of State Ethics did not complete the annual internal control self-assessment for the fiscal years ended June 30, 2017, 2018 and 2019.
<i>Effect:</i>	OSE may not have properly evaluated its internal controls and identified possible deficiencies.
<i>Cause:</i>	OSE informed us that it was not aware of this requirement.
<i>Prior Audit Finding:</i>	This finding has not been previously reported.
<i>Conclusion:</i>	Since the Office of State Ethics completed its latest internal control self-assessment by June 30, 2020, we are not making a recommendation in this area.
<i>Agency's Response:</i>	"The OSE agrees with this finding. As noted above, the OSE was not aware of this requirement. The agency is taking the appropriate and necessary steps to complete the annual internal control self-assessment going forward and will continue to make its best efforts to ensure compliance."

Reporting Systems

- Background:* The Office of State Ethics must submit specific reports under various sections of the General Statutes. The reports must be provided to the Governor, General Assembly, or certain legislative committees. They provide necessary information for executive and legislative oversight of the office's activities
- Criteria:* Section 1-81 (a)(6) of the General Statutes requires the Office of State Ethics to "Make legislative recommendations to the General Assembly and report annually, not later than February fifteenth, to the Governor summarizing the activities of the Office of State Ethics..." Section 1-92 (f) of the General Statutes requires the office to "report annually, prior to February fifteenth, to the Governor summarizing the activities of the Office of State Ethics."
- Condition:* OSE did not file a total of four reports required by sections 1-81(a)(6) and 1-92(f) of the General Statutes for the fiscal years ended June 30, 2017 and 2018.
- Effect:* The office did not comply with the General Statutes and did not provide the intended parties with required information.
- Cause:* Management did not ensure that OSE filed certain reports on time.
- Prior Audit Finding:* This finding has been previously reported in the last audit report for the Office of Governmental Accountability, covering the fiscal years ended June 30, 2015 through 2016.
- Recommendation:* The Office of State Ethics should promptly file its annual reports as required by the General Statutes. The reports should include all statutorily required information (See Recommendation 1.)
- Agency's Response:* "The OSE agrees with this finding. The OSE files the requisite reports, mandated by Section 1-81 (a)(6) and Section 1-92 (f) of the General Statutes, on a calendar year basis. The OSE completed such reports for the calendar year 2019, capturing half of the fiscal year ended June 30, 2019. The agency has made and will continue to make its best efforts to ensure compliance."

Late Deposits

- Criteria:* Section 4-32 of the General Statutes requires that any state agency receiving money or revenue for the state, amounting to more than \$500, deposit such receipts in depositories designated by the State Treasurer within 24 hours of receipt. A state agency may hold total daily receipts

of less than \$500 until the total receipts amount to \$500, but not for a period of more than 7 calendar days. The State Treasurer can make exceptions upon written application from a state agency stating that compliance would be impracticable and providing the associated reasons.

Condition: Our examination of 15 receipts, totaling \$8,750, noted that OSE deposited 10 of the 15 receipts two to 11 days late.

Context: The Office of State Ethics received \$902,732, \$138,758 and \$911,222 in receipts during fiscal years 2017, 2018, and 2019, respectively.

Effect: The lack of prompt deposits increases the opportunity for the loss or misappropriation of funds.

Cause: It appears that a lack of management oversight contributed to this condition.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of State Ethics should strengthen internal controls to ensure that it promptly deposits receipts in accordance with Section 4-32 of the General Statutes. (See Recommendation 2.)

Agency's Response: "The OSE agrees with this finding. The OSE receives payments from two primary sources: 1) payments for lobbyist registrations (about \$1 million each biennium), and 2) payments of penalties in ethics enforcement matters (vary from year to year). Payments for lobbyist registrations are deposited promptly within 24 hours. Most payments for ethics enforcement violations or settlement of enforcement matters are also deposited within 24 hours. Rare delays in deposits have occurred during the audited period when enforcement staff encountered problems in the proper execution of settlement agreements and/or other enforcement documentation by the parties in order to properly close a case. For example, a settling party sent a check and inadvertently did not sign the settlement agreement, thus requiring ethics enforcement staff to wait to make sure that all settlement paperwork was finalized. The OSE will continue to make its best efforts to ensure compliance."

Annual Inventory

Criteria: The Office of the State Comptroller's Property Control Manual requires each agency to have a complete physical inventory of all property by the end of the fiscal year to ensure accurate property control records.

<i>Condition:</i>	The Office of State Ethics did not conduct its physical inventory during the fiscal year ended June 30, 2019. The office conducted its last physical inventory during the fiscal year ended June 30, 2018.
<i>Effect:</i>	There is less assurance that the recorded inventory is accurate, leaving state property susceptible to loss or theft.
<i>Cause:</i>	It appears that a lack of management oversight contributed to this condition.
<i>Prior Audit Finding:</i>	This finding has not been previously reported.
<i>Recommendation:</i>	The Office of State Ethics should perform an annual physical inventory as required by the Office of the State Comptroller’s Property Control Manual. (See Recommendation 3.)
<i>Agency’s Response:</i>	“The OSE agrees with this finding. The OSE experienced significant changes in administration and staffing during the fiscal year that ended June 30, 2019. The reported deficiency occurred during the period when the agency experienced transition in executive and divisional leadership. The OSE has made and will continue to make its best efforts to ensure compliance.”

RECOMMENDATIONS

Status of Prior Audit Recommendations

Our prior report on the Office of Governmental Accountability contained one recommendation related to the Office of State Ethics, which is repeated during the current audit.

- The Office of State Ethics and the State Elections Enforcement Commission should file their annual reports required by the General Statutes in a timely manner. The reports should include all statutorily required information. **This recommendation is being repeated. (See Recommendation 1.)**

Current Audit Recommendations:

- 1. The Office of State Ethics should promptly file its annual reports required by the General Statutes. The reports should include all statutorily required information.**

Comment:

The Office of State Ethics did not file a total of four reports required by sections 1-81(a)(6) and 1-92(f) of the General Statutes for the fiscal years ended June 30, 2017 and 2018.

- 2. The Office of State Ethics should strengthen internal controls to ensure that it promptly deposits receipts in accordance with Section 4-32 of the General Statutes.**

Comment:

Our examination of 15 receipts, totaling \$8,750, noted that the Office of State Ethics deposited 10 of the 15 receipts between two and 11 days late.

- 3. The Office of State Ethics should perform an annual physical inventory as required by the Office of the State Comptroller's Property Control Manual.**

Comment:

The Office of State Ethics did not perform its physical inventory for the fiscal year ended June 30, 2019.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of State Ethics during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Michael Abbatiello
Nikolaos Perdikakis



Michael Abbatiello
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor