

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
OFFICE OF STATE ETHICS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007***

**AUDITORS OF PUBLIC ACCOUNTS**  
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## **Table of Contents**

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<b>INTRODUCTION</b> .....	1
<b>COMMENTS</b> .....	1
Foreword.....	1
Résumé of Operations.....	3
<b>CONDITION OF RECORDS</b> .....	5
Payroll and Personnel .....	5
Asset Management.....	7
Purchasing, Receiving, and Expenditures.....	8
<b>RECOMMENDATIONS</b> .....	11
<b>INDEPENDENT AUDITORS' CERTIFICATION</b> .....	12
<b>CONCLUSION</b> .....	15

October 31, 2008

**AUDITORS' REPORT  
OFFICE OF STATE ETHICS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007**

We have examined the financial records of the Office of State Ethics for the fiscal years ended June 30, 2006 and 2007.

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, established on July 1, 2005, is the successor agency to the State Ethics Commission, which was abolished on June 30, 2005, pursuant to Public Act 05-183. 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 Connecticut 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, 2007, the members were as follows:

	<u>Term Expires</u> <u>September 30,</u>
Patricia T. Hendel, Chairperson	2007
Robert N. Worgaftik, Vice Chairperson	2009
Jacklyn Bernstein	2007
Rebecca M. Doty	2007
Enid Johns Oresman	2009
Dennis Riley	2010
Michael Rion	2008
Scott Storms	2007
Sally J. Tolles	2009

Barbara E. Headley, Charlotte Koskoff, John J. Lescoe, and Rebecca L. Swanson-Bowers also served on the Citizens Ethics Advisory Board during the audited period.

The first board members were appointed in October 2005. Members of the State Ethics Commission at June 30, 2005, were invited to serve on the Interim Citizens Ethics Advisory Board through September 30, 2005. The interim board members were Rosalind Berman, Gary Collins, Chairperson, John D. O'Connor, Helen Z. Pearl, Vice Chairperson, Tracy L. Rich, George C. Springer, Scott A. Storms, and Carol P. Wallace.

**Officers:**

Mitchell W. Pearlman, then Executive Director and General Counsel for the Freedom of Information Commission, served concurrently as the Interim Executive Director for the Office of State Ethics from July 1, 2005, through December 15, 2005. Mr. Pearlman was appointed jointly by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate, as provided in Section 1-80c of the Connecticut General Statutes. On December 15, 2005, the Board hired Benjamin Bycel as the first Executive Director of the Agency. Mr. Bycel served as Executive Director throughout the remainder of the audited period.

**Staffing:**

In compliance with Section 36 of Public Act 05-183, all staff members of the State Ethics Commission were transferred to other State agencies. This left the successor agency without personnel, apart from the Interim Executive Director, to assume the duties of running the State's ethics organization. To remedy this serious problem, Mr. Pearlman arranged for personnel from the Freedom of Information Commission to assist as interim program staff for the Office of State Ethics. The business office employees from the Freedom of Information Commission handled the duties of the Office of State Ethics business office, including responsibilities for personnel and payroll matters. In addition, Mr. Pearlman began hiring program personnel to staff the Agency on a full-time basis. No new employees were hired to staff the business office. Therefore, in January 2006, the business office responsibilities were transferred to the Department of Administrative Services. The first full-time business office employee was not hired until July 2006, and the business office responsibilities were transferred back to the Office of State Ethics after that time.

**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 be registered 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 if there is probable cause to believe that there was a violation of the Code of Ethics. If the judge trial referee does find such probable cause, the Board initiates a hearing before a different judge trial referee, in which the Board acts as 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, 2006, and 2007, are presented below:

	<u>2005-2006</u>	<u>2006-2007</u>
Lobbyist Fees	\$ 49,500	\$472,275
Civil Penalties	32,600	300
Other	<u>215</u>	<u>0</u>
<b>Total General Fund Receipts</b>	<b><u>\$ 82,315</u></b>	<b><u>\$472,575</u></b>

The significant increase in lobbyist fees collected in fiscal year 2007 reflects the lobbyist registration schedule imposed by Section 1-95 of the Connecticut General Statutes; lobbyists are required to register with the Office of State Ethics for a two-year period beginning in January of each odd-numbered calendar year. Lobbyists who commenced lobbying activities in the even-numbered year are required to pay half the normal fee in that year. The civil penalty collections identified above are primarily a result of the action of the predecessor agency, the State Ethics Commission; most of these penalties were owed to the State at June 30, 2005.

**General Fund Expenditures:**

General Fund expenditures during the fiscal years ended June 30, 2006 and 2007 are presented below:

	<u>2005-2006</u>	<u>2006-2007</u>
Personal Services	\$410,499	\$1,026,285
Contractual Services	138,766	374,905
Commodities	9,171	73,823
Equipment	9,628	0
Other	<u>1,644</u>	<u>4,865</u>
<b>Total General Fund Expenditures</b>	<b><u>\$569,708</u></b>	<b><u>\$1,479,878</u></b>

Total expenditures increased by \$910,170 from fiscal year 2006 to fiscal year 2007, an increase of 159 percent. This increase can be attributed primarily to the increase in Personal Services costs as the Agency continued to fill full-time, permanent positions. The salaries of most of the interim personnel were paid from the appropriations of the Freedom of Information Commission, the agency to which they were permanently assigned. In addition, expenditures for information technology consulting services increased over 500 percent, from \$40,012 in fiscal year 2006 to \$248,177 in fiscal year 2007. This is an increase of \$208,165, for the Agency's Lobbyist and Statement of Financial Interest electronic filing systems. Because the former systems were found to be inadequate, it was necessary to hire consultants to re-write them.

## 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:**

*Criteria:* State employee bargaining unit contracts establish criteria for employee leave accruals applicable to employees who are members of such bargaining units.

The Connecticut Managers Guide and Management Personnel Policy 80-2 allow managers to work a non-standard workweek but restrict such schedule to a 40-hour workweek.

State personnel procedures outline the requirements for approving and filling staff positions.

Good business practice requires that personnel files be adequately maintained.

*Condition:* Vacation leave was inaccurately adjusted. One employee did not receive all vacation leave due upon completion of the working test period. There should have been an adjustment of 32 hours in December 2006, but the adjustment was for only 24 hours. A subsequent adjustment was for 40 hours, instead of the difference of 8 hours. Therefore, the employee's vacation balance is overstated by 32 hours. It should be noted that at one point, the employee's balance was less than 32 hours, effectively resulting in an "overdrawn" vacation balance, had the records been accurate. In addition, the employee began accruing sick leave one month before the time allowed by the bargaining unit contract.

One employee in the managerial pay plan worked an alternate work schedule during the audited period, consisting of 36 hours in one week of the two-week pay period, and 44 hours in the other week of the pay period.

Two hirings were mishandled, such that it took approximately six months, from February 2006 until August 2006, for one person to get paid. The other individual was never paid.

Personnel files are inadequately maintained. Two personnel files do not contain adequate documentation. One file lacks documentation of prior work experience, and one file contains neither an application nor a resume showing prior work experience or educational qualifications. Therefore, it is not possible to verify that these employees meet minimum education and/or work experience requirements.

- Effect:* The Office of State Ethics is out of compliance with the State's personnel policies and bargaining unit agreements.
- Cause:* Unfamiliarity with and/or disregard for State personnel policies by Agency management and changes in administration and staffing appear to be the causes of most of the exceptions identified in this finding. The Agency was created on July 1, 2005, and was staffed with interim personnel drawn mostly from another State agency for approximately six months. As the Agency began hiring permanent staff, the responsibility for processing human resources transactions was shifted to another State agency for approximately another six months. Office of State Ethics personnel with responsibility for processing human resources transactions were not hired until fiscal year 2007.
- Recommendation:* The Office of State Ethics should become familiar and comply with State personnel policies. In addition, the Agency should take steps to correct erroneous personnel actions. (See Recommendation 1.)
- Agency Response:* "In general, the Office of State Ethics, which the audit report notes has experienced significant changes in administration and staffing since its creation on July 1, 2005, notes the findings and concurs with the recommendation. The Agency is making and will continue to make its best efforts to ensure compliance. In particular, in March 2008, the Agency hired a fiscal administrative and human resources officer with 19 years of experience with State systems; she is taking steps to ensure that appropriate practices and procedures for processing human resources transactions exist and are followed. The Agency is taking steps to correct erroneous payroll and personnel actions and provides the following responses to specific conditions:
- The Agency is taking steps to correct the inaccurate [leave] adjustment.
  - The manager worked a "non-standard" work week of 36 hours one week and 44 hours the next week. The agency head at the time relied on Managerial Personnel Policy No. 80-2, which can be found on the Department of Administrative Services website at [http://www.das.state.ct.us/hr/om/om\\_mmp\\_list\\_doc.asp](http://www.das.state.ct.us/hr/om/om_mmp_list_doc.asp) and which states that a non-standard work week is defined as a variable work week of at least 35 hours. (Note that while dated June 3, 1981, it is a scanned document which has a date of February 14, 2006 at the top.) In any event, the manager no longer works such a variable schedule.
  - The Agency has taken steps to supplement the personnel files that contain inadequate documentation, and confirms that the employees meet the minimum education and/or work experience requirements."

**Asset Management:**

*Criteria:* Section 4-36 of the Connecticut General Statutes requires each State agency to establish and keep inventory records for real property and personal property. Property having a value of \$1,000 or more must be reported to the Comptroller by October 1st each year. In addition, agencies must maintain a control record of property valued at less than \$1,000.

The State Property Control Manual, Chapter five, states that relevant purchases should be included in the inventory control records and tagged upon receipt by the Agency.

*Condition:* The 2006 CO-59 report, Fixed Assets/Property Inventory Report and GAAP Reporting Form, required at October 1, 2006, was not filed until September 25, 2007.

The \$26,780 phone system, transferred from the State Ethics Commission to the Office of State Ethics, is not included in the Core-CT asset records; nor is it included in the CO-59 inventory reports for 2006 and 2007.

The 2007 CO-59 inventory report reflects asset deletions of \$20,385, as included in the Core-CT asset records, but these deletions are not supported by asset disposal records.

Six boxes of Dell computer equipment, received June 7, 2007, in a shipment of 12 computers with peripherals, were still in boxes stored in the Agency's supply room as of April 18, 2008. We observed that the computers that have been put into service have not yet been tagged. These computers cost less than \$1,000 each, so should not be capitalized, but should still be controlled.

In addition, one laptop computer has not been tagged.

*Effect:* The Agency is not in compliance with Section 4-36 of the Connecticut General Statutes nor with the requirements outlined in the State Property Control Manual. More importantly, the assets of the Agency are not adequately controlled, and thus are at increased risk of loss.

*Cause:* Unfamiliarity with State property control requirements by Agency management and changes in administration and staffing appear to be the cause of many of the exceptions identified above.

*Recommendation:* The Office of State Ethics should develop inventory control procedures that include accurate record-keeping and timely identification and distribution of all capital and controllable assets in its possession. (See Recommendation 2.)

*Agency Response:* “In general, the Office of State Ethics, which the audit report notes has experienced significant changes in administration and staffing since its creation on July 1, 2005, notes the findings and concurs with the recommendation that the Agency should develop accurate and timely inventory control procedures. The Agency is taking the appropriate and necessary steps to properly control its inventory and will continue to make its best efforts to ensure compliance. In particular, in March 2008, the Agency hired a fiscal administrative and human resources officer with 19 years of experience with state systems; she is taking steps to ensure that appropriate practices and procedures for processing inventory control transactions exist and are followed. The Agency provides the following responses to specific conditions:

- The CO-59 for 2004 was originally submitted with a total of \$129,768 for capitalized furnishings and equipment on September 4, 2004. In 2005, it was discovered that the CO-59 for 2003/2004 was incorrect because it included items valued at less than \$1,000. Corrections were made on the 2005 form to include only items \$1,000 and over, which brought the equipment assets down to \$88,673. This figure included the phone system (\$26,780) and a letter of explanation was sent along with the 2005 CO-59. This figure was carried forward as a calculating basis for 2006 and 2007. The 2008 inventory and its records are now complete and accurate.

Core-CT entries were not kept current for asset management due to significant changes in administration and staffing. We have conducted a complete inventory for 2008 and are currently entering items in Core-CT Asset Management System; we will also be going back to enter assets for 2007 which were not previously entered.

- Four computers, not six, were in a total of eight boxes as of April 18. The Agency had a significant number of vacant positions during this period; computers were put into service as positions were filled. As of July 1, 2008, one computer is not in service, but will be upon filling the position of Paralegal 2.”

**Purchasing, Receiving, and Expenditures:**

*Criteria:* General Letter Number 71 requires that purchases over \$10,000 but less than \$50,000 be based, when possible, upon at least three written quotations or bids. It also requires that agencies publish their request for quotation or bid notice on the State Bid/Contracting Portal. In addition, subsection (a) of Section 4d-3-2 of the State of Connecticut Regulations states that the Chief Information Officer may delegate direct purchase authority to the head of an agency. Subsection (c) states that such delegation shall be in writing.

Contracts can be used only for the purpose specified in the contract.

*Condition:*

The Agency initiated a transaction with a vendor for the establishment of a data center, with an initial invoice of \$22,261. The Agency did not solicit bids for the project, and there was no contract. The project was ultimately abandoned, and the Agency and the vendor renegotiated the amount of the invoice for services rendered and purchases that could not be returned to the vendor's inventory. The renegotiated invoice was for \$3,690. In addition, the Office of State Ethics paid the vendor \$1,676 for the services of vendor personnel for time spent on efforts to set up a data center.

This unauthorized transaction was made through a vendor with which the Agency had an authorized agreement that was appropriately arranged via the Department of Information Technology's existing contracts. Through the authorized agreement, the contractor could provide only the professional services of an information technology consultant to work on the Agency's lobbyist registration and reporting system and the reporting system for public officials and State employees. Per the master agreement with the Department of Information Technology, this contractor is not authorized to provide a data center. The Agency made no further payments for the server, although we learned that the contractor continued to supply the server for the Agency's data needs through a third party.

Effective April 1, 2008, the Department of Information Technology resumed responsibility for providing a server for the Office of State Ethic's data needs. At that time, the Agency's agreement with the subject provider ended.

*Effect:*

The Agency expended a total of \$5,366 for a data center, an expenditure that did not comply with the State's purchasing policies and regulations. In addition, the Agency and the contractor are not in compliance with the terms of the contract between the vendor and the Department of Information Technology, as the contractor was supplying services that it is not authorized to supply, and the Agency was receiving services for which it did not pay. Furthermore, as there was no contract for the vendor's use of a server provided by a third party, the State did not have the legal protections inherent in contractual arrangements.

*Cause:*

The non-compliant expenditure of \$5,366 is the result of the administration's unfamiliarity with and/or disregard for the State's purchasing requirements. We learned that the Department of Information Technology had supplied the Agency's server prior to this transaction. However, this server malfunctioned and was not available for the Agency's use. It was necessary for the Agency to move quickly to make its registration and reporting systems operational. To accomplish this, Agency management made arrangements to hire a vendor to provide a server for its data needs. However, the Agency acted without consideration of the State's purchasing requirements.

*Recommendation:* Management of the Office of State Ethics should become familiar and comply with the State's purchasing requirements. (See Recommendation 3.)

*Agency Response:* "In general, the Office of State Ethics, which the audit report notes has experienced significant changes in administration and staffing since its creation on July 1, 2005, notes the findings and concurs with the recommendation. The Agency is making and will continue to make its best efforts to ensure compliance with purchasing requirements. In particular, in March 2008, the Agency hired a fiscal administrative and human resources officer with 19 years of experience with state systems; she is taking steps to ensure that appropriate practices and procedures for processing purchasing, receiving and expenditures transactions exist and are followed."

## RECOMMENDATIONS

### *Current Audit Recommendations:*

1. **The Office of State Ethics should become familiar and comply with State personnel policies. In addition, the Agency should take steps to correct erroneous personnel actions.**

Comment:

Our review of payroll transactions and personnel actions disclosed that the hiring of two persons was not processed in accordance with State personnel requirements, that one employee's leave balances were inaccurately adjusted, that personnel files were not adequately maintained, and that one State manager was allowed to work an unauthorized schedule.

2. **The Office of State Ethics should develop inventory control procedures that include accurate record-keeping and timely identification and distribution of all capital and controllable assets in its possession.**

Comment:

We found that the inventory records were inaccurate, that the required 2006 inventory report was filed one year late, and that computer purchases from June 2007 were not properly tagged and some of these items were still in boxes, unused, for approximately ten months.

3. **Management of the Office of State Ethics should become familiar and comply with the State's purchasing requirements.**

Comment:

The Agency attempted to enter into an unauthorized purchase arrangement for a data center with a vendor that is not authorized to provide such services. The Agency expended \$5,366 for the services of the vendor, as well as for supplies that could not be returned when the plan was abandoned. Furthermore, the vendor continued to supply a server through a third party, which it is not authorized to do, and the Agency continued to receive these services without paying for them.

## 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, 2006 and 2007. 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, 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, 2006 and 2007, 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:**

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 providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* 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 on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations,

contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1, which addresses payroll and personnel matters, and Recommendation 2, which is about the safeguarding and reporting of assets.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the (State Agency) 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying "Condition of Records" and "Recommendations" sections of this report as the following item: Recommendation 3, which addresses the Agency's attempt to hire a vendor to provide information technology services that it is not authorized by contract to provide.

We also noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Office of State Ethics' responses to the findings identified in our audit are also described in the accompanying "Condition of Records" section of this report. We did not audit the Office of State Ethics' responses, and accordingly, we express no opinion on them.

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 to the personnel of the Office of State Ethics for the courtesies extended to our representatives during the course of our audit.

Laura Rogers  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts