

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF STATE ETHICS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009*

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

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October 25, 2011

AUDITORS' REPORT OFFICE OF STATE ETHICS FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

We have examined the financial records of the Office of State Ethics (Office) for the fiscal years ended June 30, 2008 and 2009.

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 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 Citizen's Ethics Advisory Board (Board).

The Citizen's 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, 2009, the members were as follows:

	Term Expires <u>September 30,</u>
Robert Worgaftik, Chairperson	2009
Sister Sally J. Tolles, Vice Chairperson	2009
Ernest N. Abate	2011
Kenneth Bernhard	2011
Kathleen Bornhorst	2012
Thomas H. Dooley	2012
Rebecca Doty	2011
Dennis Riley	2009
Shawn T. Wooden	2009

Scott A. Storms, Patricia T. Hendel, Michael Rion, Jaclyn Bernstein, Enid Oresman, and Dawne Westbrook also served on the Citizen’s Ethics Advisory Board during the audited period.

Officers:

Benjamin Bycel was executive director of the Office through September 18, 2007. Beverly J. Hodgson served as interim executive director from October 1 through November 30, 2007. On December 17, 2007, the Board hired Carol Carson as executive director. 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 Office are funded by the general fund. The executive director is appointed by the Citizen’s 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 Office 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 Office’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 a violation of the code of ethics occurred. 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 jury. There is a right of appeal of the Board's final decision to the Superior Court. 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, 2007, 2008, and 2009, are presented below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Lobbyist Fees	\$472,275	\$ 84,533	\$472,325
Civil Penalties	300	111,420	51,950
Other	<u>0</u>	<u>13,726</u>	<u>382</u>
Total General Fund Receipts	<u>\$472,575</u>	<u>\$209,679</u>	<u>\$524,657</u>

The significant increase in lobbyist fees collected in fiscal year 2009 reflects the lobbyist registration schedule imposed by Section 1-95 of the Connecticut General Statutes. Lobbyists are required to register with the Office 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 increase in civil penalty collections in fiscal year 2007-2008, identified above, is the result of increased enforcement activity during the audit period. The Office attributes this, in part, to its increased efforts in ethics awareness education. In addition, there was a sharp increase in photocopying fees in fiscal year 2008, related to the increase in enforcement activity.

General Fund Expenditures:

General fund expenditures during the fiscal years ended June 30, 2007, 2008, and 2009, are presented below:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Personal Services	\$1,026,285	\$1,076,349	\$1,316,052
Contractual Services	374,905	223,197	690,860
Commodities	73,823	32,611	12,450
Equipment	0	27,217	0
Other	<u>4,865</u>	<u>1,937</u>	<u>5,108</u>
Total General Fund Expenditures	<u>\$1,479,878</u>	<u>\$1,361,311</u>	<u>\$2,024,470</u>

Total expenditures decreased by \$118,567 from fiscal year 2007 to fiscal year 2008, a decrease of eight percent, and increased by \$663,159, 49 percent, in fiscal year 2009. The change in fiscal year 2009 can be attributed to the increase in personal services costs as the Office continued to fill full-time, permanent positions and to increased costs for contractual services. These include information technology consulting fees for the Office's Lobbyist Registration and the Statement of Financial Interest electronic filing systems, attorney fees for services rendered during the prior audit period, and telephone installation.

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. In part, this act establishes the Office of Governmental Accountability, which consolidates the Office of State Ethics with eight other governmental agencies. These other agencies are: 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 merges and consolidates within the Office of Governmental Accountability the nine existing agencies' personnel, payroll, affirmative action, administrative, and business office functions. Therefore, once the consolidation is completed, the Office of State Ethics will cease to exist as a separate and distinct state agency, although its independent decision-making authority will remain 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:

Criteria: As part of its system of internal controls, one of the Office's policies for payroll processing requires each employee to prepare a timesheet indicating time worked, leave balances used, and if applicable, compensatory time earned and/or taken. Each employee is required to sign his or her timesheet, which is then submitted to the supervisor for approval. The supervisor also signs the timesheet.

A good system of internal controls dictates that all payroll records and time and attendance records be adequately documented.

Condition: In our review of six timesheets and the related attendance and leave records, we found one instance of conflicting timesheet documentation. There are two different timesheets for one employee for the pay period reviewed, one signed by the employee showing 19 hours of compensatory time earned during the pay period, and one signed by the supervisor showing only 15.25 hours of compensatory time earned. The latter is the data that was entered into the Core-CT attendance and leave records. In addition, during the same pay period, both timesheets show eight hours worked on a particular day. However, the Core-CT attendance and leave record shows seven hours worked and one hour of compensatory time used on that date.

Effect: The Core-CT attendance and leave records may be inaccurate. The employee's compensatory time balance may be understated.

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

Recommendation: The Office 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. (See Recommendation 1.)

Agency Response: "The Office of State Ethics has adopted the Core-CT "self-service" payroll, which includes authorization controls, and instituted an electronic process for managing time off requests."

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 ten lobbyist registration payments, six of which were made by check, we found that two deposits did not meet the 24-hour deposit timeframe requirement. One check in excess of \$10,000 was deposited three days after receipt. One check for \$150 was not deposited until seven business days after receipt. It was part of a deposit totaling \$4,130; these checks were deposited from two to seven business days after receipt. In addition, we counted \$9,500 on hand on Monday, January 24, 2011, and subsequently found that these checks were not deposited until Friday, January 28, 2011.

We also found that the deposits for eight of the ten transactions we reviewed were posted to the general ledger between three and eight business days after the deposit information was made available through the bank/Core-CT interface.

Effect: The Office is not in compliance with the requirements of Section 4-32 of the Connecticut 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 Connecticut General Statutes. (See Recommendation 2.)

Agency Response: “The Office of State Ethics is arranging to use a daily courier service to ensure timely deposits. Procedures are now in place to perform direct journal deposits on a daily basis in Core-CT.”

Revenue and Receipts – Accountability and Segregation of Duties:

Criteria: A good system of internal controls includes procedures to ensure accuracy and adequate segregation of duties.

Condition: Our review of lobbyist registration revenue showed that the Office does not reconcile its lobbyist registrations with the related revenue account. To compound this weakness, the employee who manages lobbyist registrations, which comprised over 75 percent of the Office’s revenue

during the audit period, also opens the mail, though not on a consistent basis.

Effect: This weakness in controls puts state revenue at increased risk of loss or error. Additionally, the lack of controls would allow such loss or error to go undetected.

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

Recommendation: The Office of State Ethics should improve its internal controls over receipts to ensure segregation of duties and proper accountability for lobbyist registration revenues. (See Recommendation 3.)

Agency Response: “Checks and credit card payments are reconciled monthly with the Mail Log (checks) and Pay Pal Reports (credit cards). Since May 2011, reports from our Lobbyist Filing System also have been reconciled with the Mail Log and Pay Pal Reports. We have put in place a process to open mail consistent with required segregation of duties.”

Purchasing, Receiving, and Expenditures:

Criteria: State agencies shall certify that goods or services have been received or performed prior to processing transactions for payment, per Section 3-117 of the Connecticut General Statutes.

State purchasing card policies prohibit use of the purchasing card to make donations.

Section 5-141c-7 of State Regulations prohibits payment of non-business related personal expenses, including items such as theater tickets, entertainment and liquor.

Condition: In our test of 30 expenditure transactions, totaling \$369,588, we found:

- Inadequate receiving documentation for four expenditures totaling \$37,984. These included expenditures for software, office furnishings and equipment, and food service. In some instances, there was no receiving documentation at all, and in others, the receiving documentation was incomplete.
- Inadequate documentation of services rendered for seven payments, totaling \$98,899. Six of these were invoices for consulting services based on employee timesheets. However, the timesheets were not signed by the employee. One payment was for a board member’s participation in a meeting, but there is no documentation of the meeting having taken place.
- Inadequate documentation of services and compensation arrangements for a payment of \$500 to a scholarship fund. This donation appears to have been in lieu of a speaker’s fee. Documentation for this payment

consists of correspondence acknowledging receipt of said donation. The Office made this payment with its purchasing card.

In addition, there was one small payment, only \$14, for an unallowable expense. The Office paid one hotel bill that included a charge for the hotel lounge at a conference in fiscal year 2009. Office personnel report that the state was reimbursed for the expenditure in the following fiscal year, but were unable to provide sufficient documentation of the reimbursement.

Effect: The Office is at risk of paying for goods not delivered and services not rendered if payment is made without verification that such goods and services are delivered. It would be possible for the Office to pay for unwanted goods or services if there is no verification that such conform to the terms of the order or agreement.

The Office is not in compliance with the regulations regarding travel expenses, resulting in an unauthorized expenditure of state funds.

Cause: Though the Office has made progress in developing a system of internal controls over purchasing, receiving, and expenditures, these were not fully implemented during the audit period.

Recommendation: The Office 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. (See Recommendation 4.)

Agency Response: “The Office of State Ethics experienced significant changes in administration and staffing during the audit period. Some of the reported deficiencies occurred before and during this period of organizational turmoil. The Office has made and will continue to make its best efforts to ensure compliance.

The payment for \$14 was reimbursed on December 3, 2009 (Deposit #1062). The amount was for \$24.48 - \$14 for reimbursement to the state and the balance for frames for board member pictures. Although entered in the mail log, the backup explanation was not clear.”

Asset Management:

Criteria: Section 4-36 of the Connecticut General Statutes requires each state agency to establish and keep inventory records for real and personal property. Property having a value of \$1,000 or more must be reported to the Comptroller by October 1st each year.

Condition: The inventory values reported on the 2008 and 2009 CO-59 forms, Fixed Assets/Property Inventory Report and GAAP Reporting Form, were not supported by detailed inventory records, neither in-house property records

nor Core-CT asset management records. Furthermore, the Office purchased approximately \$28,350 in reportable assets in fiscal year 2008, but included only \$17,501 of these as additions to personal property on the 2008 CO-59 report.

We found that the unrecorded property purchased in fiscal year 2008 had been added to the Core-CT asset management records after the audit period.

Effect: The Office is not in compliance with Section 4-36 of the Connecticut General Statutes, and inventory values are inaccurately stated.

Cause: Unfamiliarity with the state's property control and accounting requirements by Office management contributed to the condition noted above. In addition, the Office's management faced competing priorities in establishing its program and business processes.

Recommendation: 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. (See Recommendation 5.)

Agency Response: "The Office of State Ethics experienced significant changes in administration and staffing during the audit period. Some of the reported deficiencies occurred before and during this period of organizational turmoil. The Office has made and will continue to make its best efforts to ensure compliance.

The 2007 inventory had a considerable number of problems. The 2008 inventory and CO-59 forms began the process of correcting the inventory by creating a baseline, as recommended by the comptroller's office. This process continued, again with advice from the comptroller, through 2009 when the inventory was entered into Core-CT."

RECOMMENDATIONS

Our prior audit report contained three recommendations. These recommendations have been modified to reflect the results of the current audit. This report contains five recommendations.

Status of Prior Audit Recommendations:

- *The Office of State Ethics should become familiar and comply with state personnel policies. In addition, the Office should take steps to correct erroneous personnel actions* We found that the conditions noted in the prior audit have been corrected. However, we noted deficiencies in payroll and personnel transactions during the current audit. The recommendation has been restated. (See Recommendation 1.)
- *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.* The Office has made improvements in asset control, but record-keeping is not adequate. This recommendation has been restated. (See Recommendation 5.)
- *Management of the Office of State Ethics should become familiar and comply with the state's purchasing requirements.* We found that the conditions noted in the prior audit report were not repeated during the current audit period. However, we noted deficiencies in purchasing, receiving and expenditures during the current audit. The recommendation has been restated. (See Recommendation 4.)

Current Audit Recommendations:

1. **The Office 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.**

Comment:

The records for one of the payroll transactions we tested included two different timesheets, one signed by the supervisor and one signed by the employee. The official time record that was entered in the state's human resource system did not match either of these signed timesheets.

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:

Three deposits were deposited from two to seven business days after receipt, in violation of the statutory 24-hour deposit rule. In addition, eight deposits were not recorded in Core-CT in a timely manner.

- 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.**

Comment:

Segregation of duties is often a problem in small agencies such as the Office of State Ethics, but accountability reports can help to minimize risk. The Office has inadequate segregation of duties over receipts processing, and does not prepare accountability reports over receipts generated from lobbyist registrations.

- 4. The Office 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.**

Comment:

Our review disclosed expenditures for which there was inadequate documentation of goods received or services provided; a donation was made with the Office's purchasing card, which is an unacceptable use of the card. We also discovered one small payment for an unallowable expenditure.

- 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.**

Comment:

The Office has not brought its asset records up to date. We observe that it has made progress in this regard since the end of the audit period.

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, 2008 and 2009. This audit was primarily limited to performing tests of the Office's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Office are complied with, (2) the financial transactions of the Office are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Office are safeguarded against loss or unauthorized use. The financial statement audits of the Office of State Ethics for the fiscal years ended June 30, 2008 and 2009, 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 Office'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 Office'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 Office'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 Office'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, regarding payroll and personnel matters, Recommendation 2, which addresses timeliness of deposits, and Recommendation 3, which is about segregation of duties. 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:

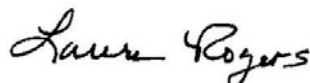
As part of obtaining reasonable assurance about whether the Office of State Ethics complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Office'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 that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Office management in the accompanying Condition of Records and Recommendations sections of this report.

This report is intended for the information and use of Office 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:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts