

AUDIT REPORT

2009 STATEMENTS OF FINANCIAL INTERESTS

SEPTEMBER 9, 2010



SUMMARY & BACKGROUND

SUMMARY:

We have performed an audit of a random sampling of 2009 Statements of Financial Interests (“SFI”). Our audit was based on a sample of 263 randomly selected SFIs, or 10% of the 2633 required filers as of the filing date of May 1, 2010. Our audit procedures were designed to reveal the level of statutory compliance, and were similar in nature to those employed in the audits of client and lobbyist registrants.

The audit revealed that, among the audit pool, the vast majority of required filers (72.2%) timely filed their forms and fully disclosed those items which formed the basis of review. The highest occurring examples of errors and/or non-compliance were:

1. Approximately 23% of audited forms either failed to fully answer, or failed to check as not applicable, various questions on the 2009 form.
2. Approximately 14% of audited forms failed to adequately disclose the name of a person or entity that provided income to the filer in 2009.
3. Approximately 4% of audited forms failed to adequately disclose the name of a person or entity that provided income to the filer’s spouse in 2009.
4. Approximately 2% of audited forms failed to adequately disclose the name of securities with a market value over \$5,000 owned by the filer in 2009.¹

Additionally, we found among the 263 required filers chosen to be audited:

1. Ten persons who failed to timely file the form, or 3.8% of the 263 sample size. (All ten filed their forms, but did so after the May 1, 2010 deadline).

All of the above findings were at lower rates than those identified in the previous year’s audit. The inevitable conclusion is that the accuracy and timeliness of filing of the SFI form has improved from the previous year.

BACKGROUND:

A. The Filing Requirement

Connecticut General Statutes § 1-83(a)(1) designates that:

All state-wide elected officers, members of the General Assembly, department heads and their deputies, members of the Gaming Policy Board, the executive director of the Division of Special Revenue within the Department of Revenue Services, members or directors of each quasi-public agency, members of the Investment Advisory Council, state marshals and such members of the Executive Department and such employees of quasi-public agencies as the Governor shall require, shall file, under penalty of false

¹ Some SFI forms contained multiple errors. Thus, the percentage total of errors exceeds the percentage total of forms that contain errors.

statement, a statement of financial interests for the preceding calendar year with the Office of State Ethics on or before the May first next in any year in which they hold such a position.

Per Governor's order, the designation of such members of the Executive Department and such employees of quasi-public agencies has been delegated by the Governor to agency heads. In delegating this statutory function to the heads of agencies, Governor Rell has established a standard which requires:

. . . filing of Annual statements of financial Interests by all persons in the Executive Branch and Quasi-Public Agencies who exercise (i) significant policy-making, regulatory or contractual authority; (ii) significant decision-making and/or supervisory responsibility for the review and/or award of State contracts; or (iii) significant decision-making and/or supervisory responsibility over staff that monitor State contracts.

Designation lists are provided to the Office of State Ethics by each executive branch agency and by the quasi-public agencies, acting through their ethics liaisons. See General Statutes at § 1-101rr. As of May 1, 2010, there were 2,633 persons who were required to file SFIs for calendar year 2009. The random selection of the audit pool was performed using this group of 2,633.²

B. Submitting the SFI Form

Per statute, filers are not required to file online, but may file instead on a paper form, available for download on the agency's website or at the Office of State Ethics. In 2009, the Office overhauled and enhanced its on-line filing system to provide filers with an easy-to-use, more intuitive system. 78.5% of filers opted to file their 2008 forms through the on-line system. This year, 80.6% of filers filed their 2009 SFI forms online as of May 1, 2010, increasing the percentage of on-line filers. One of the features of the new on-line filing system is its ability to save data from previous filings. Thus, once a filer has utilized the on-line filing system, the filer can thereafter use the stored data (e.g., name, position, source of income, or other items that have remained the same) in subsequent filings. In addition to other ease-of-use features, this feature offers a clear incentive to those who opt to file on-line.

C. Changes From the Previous Year

The results of the previous year's audit, in addition to subsequent conversations with filers, identified areas of focus for the Office. The three primary issues of focus were: (1) coordinating with agencies in an attempt to get greater agency support in identifying required filers and in ensuring timely filing; (2) addressing the need to educate filers on the instructions for filling out the SFI form; and, (3) addressing the need to ensure timely compliance with the filing deadline.

Following the previous year's audit, the Office revamped the manner in which it interacted with the state agencies. By statute (General Statutes section 1-101rr(b)), each state agency is required to select an ethics liaison to interact with the Office of State Ethics on matters involving the Code of Ethics. In order to create efficiencies, and to better utilize this statutory position, the Office enhanced its education

² In addition, the Office of State Ethics receives SFIs from a number of state employees and public officials who are not required by statute to file. These individuals were not part of the audit pool.

of, and relationship with, the liaisons in each state agency. In addition to providing education, written correspondence, and other assistance, the Office coordinated with liaisons to provide them access to the SFI filing system, so that they could each independently manage and monitor the status of filers at their own agency.

With respect to the need to educate filers, the Office amended the instructions on both the on-line and paper forms to clarify the areas where filers had exhibited most confusion (e.g., listing spousal income). Leading up to the required filing date, the Office expanded its outreach to filers and agencies to further educate filers. For example, the Office:

- Provided written outreach to ethics liaisons at each agency, giving them information that allowed them to directly answer questions of filers at their respective agencies;
- On two occasions immediately prior to the filing deadline, the Office established a presence in the Legislative Office Building, that included Office staff available to respond to questions, as well as a computer terminal through which filers could file their forms (with, if needed, the assistance of staff).
- Although the final filing day fell on a Saturday, the Office provided live staff availability at the Office of State Ethics, as well as telephonic staff, to provide answers to last-minute questions.

In order to ensure the timely filing of forms, the Office:

- Sent multiple reminders to filers and to their agency ethics liaisons;
- Set up a communication network with each ethics liaison to provide real-time information regarding the status of each of the agency's required filers;
- Provided public recognition to each agency that achieved 100% timely compliance [See Exhibit B for list of agencies with 100% compliance];
- For the few filers that did not file the SFI form after multiple reminders and a "grace period," enforced the requirement through enforcement actions, resulting in the imposition of penalties.³

These various efforts supplemented the outreach and educational efforts in which the Office was already engaged, including providing legal advice through the attorneys in the Legal Division of the Office, providing technical assistance, and providing hands-on filing assistance through computer terminals at the Office of State Ethics.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

AUDIT OBJECTIVES:

The primary objective of the audit is to ascertain, at a base level, the level of compliance with the disclosures required by Connecticut General Statutes § 1-83. Particular focus is devoted to facial compliance with the statute, including whether all entries are completed, and internal consistency.

³ Following the brief "grace period," during which filers could file their forms late without penalty, 17 filers had not filed their forms (out of a total of 2633 required filers). The matters were then docketed for agency hearing.

Except where otherwise specifically noted, the audit objectives do not include any substantive analysis of financial disclosures.

SCOPE AND METHODOLOGY:

1. SCOPE:

Review of the audit sample consisted of a facial review of 10% of required filer forms which were randomly selected. Scope did not include non-required, volunteer filers. The scope included only annual filings, and did not include any forms that were filed by departing officials (a supplemental SFI that is required to be filed following an official's departure from state service). Nor did the selection pool include state marshals, who file a distinct and separate disclosure form pursuant to General Statutes § 1-83(b)(2). (This year, for the first time, a separate audit is being performed for state marshal filings.)

The selection of the audit pool was done without regard to whether the filings were made on paper or online.

2. METHODOLOGY:

Methodology for examination was developed by the Office of State Ethics prior to the random selection process. Methodology was developed with reference to audit protocols developed by the Office for lobbyist filings, as well as reference to Generally Accepted Accounting Principles, Generally Accepted Auditing Standards, and protocols of the Auditors of Public Accounts. The audit methodology included two distinct sets of protocols. The first protocol included steps to individually analyze each response in order to determine whether an appropriate response was made to the SFI inquiry. The second set of protocols sought to analyze whether the responses were internally consistent, as well as consistent with other filings. [The audit protocols are attached hereto as Exhibit A].

3. AGENCY RESPONSE:

The audit process is designed to be non-punitive. Rather, the primary goal of the audit process is educational. Where errors are apparent on the face of a form, and where there is no evidence of deliberate attempts to conceal or otherwise misrepresent by the filer, the filer is notified of the error and instructed to correct the form.

RESULTS OF AUDIT AND CONCLUSIONS

The following results and conclusions can be gleaned from the audit. First, the percentage of forms that were timely filed, and filed without errors, even of a technical sort, was relatively high, 72.2%, thus suggesting that a majority of filers were able to understand and adequately comply with instructions. This compares with a 52.6% rate from the previous year – a significant improvement. Second, of the forms for which there were findings, the most common findings were as follows:

1. Filers who failed to disclose their state income in the section seeking “income” disclosures (14.4% of audited forms).

2. Filers who failed to disclose whether, and, if so, at what amount, their spouses earned “income” during 2009 (3.8%).
3. Filers who failed to disclose securities valued over \$5,000 and, in particular, securities held through mutual funds, retirement accounts (particularly state retirement accounts), etc. (1.9%).

In addition, a small minority of forms contained sporadic questions that had incomplete and/or inadequate responses. There was no ascertainable pattern to these deficiencies.

A total of 61 letters were sent to filers whose forms contained deficiencies that required correction. Thus, 23% of audited filers were notified of deficiencies.

As to filers who failed to adequately disclose all sources of income, the majority of filers within this category were those who failed to disclose the source of their state income. In the past, this tendency has been associated with the filer’s mistaken assumption (despite the form’s instruction), that only outside income – and not state income - should be disclosed on the SFI.

As to filers who failed to adequately disclose a spouse’s income, in the past this tendency has been associated with a mistaken belief (in spite of the form’s instruction), that only the filer’s income is required to be disclosed.

As to the SFI forms with questions containing incomplete and/or inadequate responses, anecdotal contacts with filers have suggested the following reasons: not understanding the question; no clear examples of how to answer or what information to disclose; a rush to complete the form in time; not taking seriously the requirement to file completely and accurately; or answering the “easy” (readily available answers) question first, then not returning to complete the unanswered questions.

This marks the second consecutive year that the Office of State Ethics has audited SFIs.

The results of this year’s audit compare favorably with the previous year’s audit, with reductions in each of the major areas of concern.

	Failure to Disclose Income	Failure to Disclose Spousal Income	Failure to Indentify Securities Over \$5000	Failure to Completely Respond to SFI	Late Filings
2008	15.6%	15.6%	5.2%	29.6%	5.9%
2009	14.4%	3.8%	1.9%	23.2%	3.8%
Change	-1.2%	-11.8%	-3.3%	-6.4%	-2.1%

In each of the areas in which there were significant error rates in the previous year’s audit, the present audit saw declines.

In addition, several areas of lesser concern from the previous year were all but eradicated in this year’s audit. Two areas stand out. Of minor concern last year was the tendency of a small minority (less than 5%) to mistakenly enter data in the fields. Second, in the previous year, a distinct minority of filers

(1.5%) incorrectly listed personal leases (rather than leases with the state). In the present year, only one person made such a mistake (less than .5%).

Although a number of errors or non-compliant responses were discovered, none rose to the level of apparent willful non-compliance.

In this second year of auditing SFIs, it is difficult to quantify any long-term trends. Nevertheless, several associations can be drawn from changes in the SFI procedures to the changes in the audit findings from the previous year to this one. Significantly, the errors based on a misunderstanding of instructions (e.g., mistakenly listing a personal residential lease in the section for “leases with the state”) plummeted from the previous year. This can be associated with the clarification of the form’s instructions, as well as the educational efforts undertaken in association with the liaisons to each agency. In addition, late filings also fell. This again can be associated with liaison participation in gaining compliance (and recognition of their success by the Office of State Ethics, which gave certificates of compliance to agency’s with 100% participation). Finally, the public hearings that were held for the previous year’s late filers – with the imposition of penalties in some hearings - also likely provided a detriment to late filers in the present year.

Over the coming months, the agency will revisit the SFI form and the filing process to determine what, if any, adjustments to make for the coming year. Topics for discussion will include (1) a potential revamping of the instructions, based on this year’s audit findings; (2) improving outreach to ethics liaisons at the agencies; (3) potential adjustments to the on-line filing system; and (4) methods to increase the percentage of on-line filers.⁴

Office of State Ethics
18-20 Trinity Street
Hartford, CT 06107
(860) 263-2400

⁴ Increased usage of the on-line filing system benefits the Office of State Ethics and the state of Connecticut in a number of ways. First, the on-line system lowers the cost of administering the SFI system due to reduced paper/supplies costs. Second, use of the on-line filing system increases accuracy of filings – largely due to the system’s inability to accept blank spaces or facially incorrect data. This is proven out by the data in the audit. Although only 17% of the forms audited were filed on paper, these forms represent 22% of the total number of forms that contained errors.

EXHIBIT A

PROTOCOL FOR AUDIT OF 2009 SFI FILINGS

SELECTION: An initial selection of 10% of names of all required filers shall be made on or about May 1, 2009. The selection shall be made through the use of computerized randomization of all required filers, with no weighted criteria.

REVIEW FOR COMPLETENESS: The following initial tasks will be performed:

1. Check if signed
2. Check if Confidential Addendum filed
3. Check if timely filed and dated
4. Ensure that form is the 2009 form
5. Ensure that the form is not a "Departing Official" form
6. Check to ensure that each question was answered
7. Check to ensure that state income is disclosed (Question #11)
8. Determine whether patterns of responses suggest intentional deficiencies (e.g., filer enters no substantive info and checks all "none applicable" boxes)

ANALYSIS: The following analytical tasks will be performed:

1. Compare with previous year's filings (if any)
2. Perform asset search to confirm accuracy of property disclosure (Question #6)
3. Search any "business associated with," "non-profit" or "trust" (Questions #7-10) to determine if any conflict exists and/or whether the business is:
 - a. Associated with someone regulated by filer's agency
 - b. Associated with a lobbyist who lobbies filer's agency
 - c. Associated with a contractor who has contracts with filer's agency
4. Compare with filings made by spouse (if a filer) or a dependent child (if a filer)
5. Review state contractors list to determine if any income or business association is related to a state contractor (Questions #7, 10, 11)
6. Search disclosed securities and entities that hold them (Question #13) to determine if any conflict exists and/or whether the ownership or the holder is:
 - a. Associated with someone regulated by filer's agency
 - b. Associated with a lobbyist who lobbies filer's agency
 - c. Associated with a contractor who has contracts with filer's agency
7. Search any disclosed lease or contract (Questions #14-15) to determine if the contract or lease is held with the filer's agency

Additional analysis may be necessary or appropriate if any adverse findings occur as a result of the above. If it is determined that an underdisclosure exists, but no other ethics code violation is indicated or suggested, the filer will be given a nominal grace period to amend the form. Upon expiration of the grace period, if the deficiencies have not been corrected, a notice of a UAPA hearing will be issued to the filer, at which point the Enforcement Division will seek penalties pursuant to Gen. Stat. sec. 1-88(b). If additional substantive ethics code violations are indicated or suggested by the audit, the Division will make a determination on a case-by-case basis as to how to proceed.

EXHIBIT B

LIST OF CONNECTICUT STATE AGENCIES WITH 100% SFI COMPLIANCE

Agency	
Agricultural Experiment Station	Office for Workforce Competitiveness
Asnuntuck Community College	Office of Consumer Counsel
Auditors of Public Accounts	Office of Health Care Access
Board of Firearms Permit Examiners	Office of Policy & Management
Board of Higher Education	Office of Protection & Advocacy
Board of Pardons and Parole	Office of State Ethics
Board of State Academic Awards	Office of the Chief Medical Examiner
Board of Trustees, Comm-Tech Colleges	Office of the Child Advocate
Bradley Board of Directors	Office of the Claims Commissioner
Capital Community College	Office of the Comptroller
Capitol Region Council of Governments	Office of the Governor
Charter Oak College	Office of the Healthcare Advocate
Commission on Fire Prevention and Control	Office of the Lieutenant Governor
Commission on the Deaf and Hearing Impaired	Office of the Secretary of the State
Connecticut General Assembly	Office of the Victim Advocate
Connecticut Siting Council	Police Officer Standards Training Council
Connecticut State University System	Psychiatric Security Review Board
Council on Environmental Quality	Quinebaug Valley Community College
CT Health & Education Facility Authority	Renewable Energy Investment Fund
CT Higher Educational Supplemental Loan Authority	Soldiers, Sailors and Marines Fund
Department of Administrative Services	State Insurance Risk Management Board
Department of Agriculture	State Properties Review Board
Department of Aviation and Ports	Teachers Retirement Board
Department of Insurance	Three Rivers Community College
Department of Public Utility Control	Transportation Strategy Board
Department of Veterans Affairs	Tunxis Community College
Division of Criminal Justice	University of Connecticut Health Center
Division of Special Revenue	
Eastern Connecticut State University	
Elections Enforcement Commission	
Emergency Management & Homeland Security	
Freedom of Information Commission	
Gateway Community College	
Historic Preservation Advisory Council	
Housatonic Community College	
Human Rights & Opportunities	
Legislative Management	
Manchester Community College	
Military Department	
Naugatuck Valley Community College	
Northwestern Connecticut Community College	
Norwalk Community College	