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**Rhode Island  
Ethics Commission**

Financial Statements

Fiscal Years Ended  
June 30, 1999, 1998, and 1997

Ernest A. Almonte, CPA, CFE  
Auditor General

State of Rhode Island and Providence Plantations  
General Assembly  
Office of the Auditor General

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ERNEST A. ALMONTE, CPA, CFE  
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October 29, 1999

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood

Senator Paul S. Kelly  
Senator Dennis L. Algiere  
Representative Gerard M. Martineau  
Representative Robert A. Watson

We have completed our audits of the financial statements of the Rhode Island Ethics Commission for the fiscal years ended June 30, 1999, 1998 and 1997.

Our report, as outlined in the Table of Contents, includes financial statements of the Rhode Island Ethics Commission for the fiscal years ended June 30, 1999, 1998 and 1997 and our report thereon. Our report includes findings and recommendations which are intended to improve internal control over the Commission's fiscal operations. We also made a recommendation for the Department of Administration's Office of Library and Information Services concerning oversight of outside consultants engaged to design and install computer systems.

Sincerely,

Ernest A. Almonte, CPA, CFE  
Auditor General

**RHODE ISLAND ETHICS COMMISSION**

**FISCAL YEARS ENDED JUNE 30, 1999, 1998 AND 1997**

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## INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the accompanying Statements of Appropriations, Expenditures and Funds Available of the Rhode Island Ethics Commission (Commission) for the fiscal years ended June 30, 1999, 1998 and 1997. These financial statements are the responsibility of the Rhode Island Ethics Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Statements of Appropriations, Expenditures and Funds Available of the Rhode Island Ethics Commission are intended to present only the results of operations of that portion of the State of Rhode Island's General Fund that is attributable to the transactions of the Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of the Rhode Island Ethics Commission for the fiscal years ended June 30, 1999, 1998 and 1997 in conformity with generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "Ernest A. Almonte". The signature is written in a cursive style with a large initial 'E'.

Ernest A. Almonte, CPA, CFE  
Auditor General

August 26, 1999

**RHODE ISLAND ETHICS COMMISSION**  
**STATEMENTS OF APPROPRIATIONS, EXPENDITURES AND FUNDS AVAILABLE**  
**FISCAL YEARS ENDED JUNE 30, 1999, 1998 AND, 1997**

	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>APPROPRIATIONS (Note 3)</b>	<u>\$ 769,695</u>	<u>\$ 783,309</u>	<u>\$ 743,813</u>
<b>EXPENDITURES:</b>			
Personal Services	489,429	462,672	392,069
Purchased Services:			
Legal Services (Note 5)	24,919	35,535	34,769
Information Systems Consultant (Note 5)	21,203	58,332	
Special Clerical Services (Note 5)	2,287	7,793	28,128
Other Special Services (Note 5)	7,999	26,472	37,327
Rental of Outside Property (Note 4)	76,809	73,164	75,707
Central Services	17,793	18,614	28,348
Computer Equipment	23,268	6,175	32,783
Judgments and Settlements (Note 6)	3,000	33,402	15,000
Printing and Binding	8,748	10,365	12,946
Postage	6,427	4,591	17,305
Office Expense	6,408	5,862	15,958
Rental of Equipment	1,020	9,598	12,152
Telephone	5,674	6,381	6,961
Out-of-State Travel	3,399	3,765	1,665
Mileage and Other Travel	71	708	445
Office Furniture and Equipment	482	6,199	1,450
Dues and Subscriptions	4,320	2,103	1,077
Record Center Charges	2,338	2,350	2,477
Advertising	1,774	3,176	2,039
Repairs	4,048	1,415	538
Staff Education Supplies and Expenses	2,624	2,793	783
Computer Supplies	4,373	616	
Lease Purchase Payments	3,559	1,483	
Other	83	107	901
<b>TOTAL EXPENDITURES</b>	<u>722,055</u>	<u>783,671</u>	<u>720,828</u>
<b>EXCESS OF APPROPRIATIONS OVER (UNDER) EXPENDITURES</b>	47,640	(362)	22,985
<b>OTHER USES:</b>			
Lapsed to General Fund Surplus (Note 7)	<u>20,640</u>	<u>          </u>	<u>22,985</u>
<b>EXCESS OF APPROPRIATIONS OVER (UNDER) EXPENDITURES AND OTHER USES</b>	27,000	(362)	
<b>FUNDS AVAILABLE, JULY 1</b>	<u>          </u>	<u>          </u>	<u>          </u>
<b>FUNDS AVAILABLE, JUNE 30 (Note 7)</b>	<u>\$ 27,000</u>	<u>\$ (362)</u>	<u>\$          </u>

The accompanying notes are an integral part of this statement.

## **Rhode Island Ethics Commission**

### **Notes to Financial Statements Fiscal Years Ended June 30, 1999, 1998 and 1997**

#### **Note 1: Organization**

The Rhode Island Ethics Commission is a constitutionally mandated body authorized to adopt, administer and enforce the State's Code of Ethics. The Code is a standard of conduct for all public officials (elected and appointed) and employees of the state and local governments in Rhode Island.

The Commission and the Code of Ethics are authorized by Article III, section 8 of the RI Constitution. The Commission is governed by Title 36-14 of the RI General Laws.

In accordance with the above authorizations, the Commission's principal activities are to establish and amend the RI Code of Ethics, issue advisory opinions, investigate complaints and prosecute violations of the code, and collect financial disclosure forms required to be filed by persons subject to Code's filing requirements. The Commission also administers an educational program.

The Commission consists of nine private citizens. The Governor appoints four members. Five are appointed by the Governor from lists of nominees submitted by the majority and minority leaders in the House and Senate and by the House Speaker, respectively. Each commissioner is appointed for a single five-year term.

The Commission has a staff of ten employees and retains outside legal counsel. Special investigators are hired as needed. The executive director of the Commission staff is also the chief prosecutor.

The financial activity of the Commission is recorded in the State of Rhode Island General Fund.

#### **Note 2: Significant Accounting Policies**

##### **Basis of Presentation**

The accompanying Statements of Appropriations, Expenditures and Funds Available of the Rhode Island Ethics Commission for the Fiscal Years Ended June 30, 1999, 1998 and 1997 are intended to present only the results of operations of that portion of the State's General Fund that is applicable to transactions of the Commission.

## Rhode Island Ethics Commission

### Notes to Financial Statements Fiscal Years Ended June 30, 1999, 1998 and 1997

**Note 2: Significant Accounting Policies** (continued)

Basis of Accounting

These statements are presented on the modified accrual basis of accounting consistent with the manner in which the Rhode Island General Fund is presented. Revenues, expenditures and funds available of the Commission are derived from the State accounting system that is maintained by the State Controller.

**Note 3: Revenues**

The Commission is financed with state appropriations.

Fines imposed by the Commission for violations of the Code of Ethics are state general revenues. Accordingly, such revenues are not included in the accompanying financial statements of the Rhode Island Ethics Commission. Receipts from fines and miscellaneous revenues totaled \$653 in fiscal 1999, \$13,742 in fiscal 1998 and \$10,944 in fiscal 1997.

Fines receivable total \$10,300 at June 30, 1999 (net of an allowance for unavailable or uncollectible amounts of \$26,025). The allowance includes \$18,000 of fines stayed pending appeal in the courts, \$5,000 paid into a superior court escrow account pending appeal in the courts, and 14 fines totaling \$3,025 which are deemed uncollectible and are pending Commission approval to be written off.

**Note 4: Rental of Outside Property**

The Commission occupies leased space in Providence, RI. Expenditures for rental of property for the fiscal years ended June 30, 1999, 1998 and 1997 are shown in the following table.

Expenditures for Leased Property

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Lease	\$73,687	\$69,552	\$71,873
Electricity	2,290	2,801	3,073
Parking	<u>832</u>	<u>811</u>	<u>761</u>
Total	<u>\$76,809</u>	<u>\$73,164</u>	<u>\$75,707</u>

The lease is for a five-year term, through May 31, 2001, with an option to renew for an additional five years.

## Rhode Island Ethics Commission

### Notes to Financial Statements Fiscal Years Ended June 30, 1999, 1998 and 1997

#### **Note 5:**      **Purchased Services**

The Commission retains outside legal counsel. Expenditures for fiscal years 1999, 1998 and 1997 total \$24,919, \$35,535 and \$34,769, respectively.

During fiscal 1998, the Commission hired a consultant to design and install a relational database computer system. This is a multiple year project. Fiscal 1998 expenditures totaling \$58,332 were for phase 1 of the project. Fiscal 1999 expenditures of \$21,203 include \$8,693 of additional phase 1 expenditures and \$12,510 for phase 2. Phase 2 will continue in fiscal year 2000.

Special clerical services are principally for stenographic services at Commission hearings and temporary help to do word processing and typing. Expenditures for these services in fiscal years 1999, 1998 and 1997 total \$2,287, \$7,793 and \$28,128, respectively.

Other special services are principally investigative services, and work-study interns. Expenditures for these services in fiscal years 1999, 1998 and 1997 total \$7,999, \$26,472 and \$37,327, respectively.

#### **Note 6:**      **Judgments and Settlements**

From time to time, the Commission must defend itself in lawsuits filed by persons who are alleged to have violated or who have been convicted of a violation of the Code of Ethics. During fiscal 1998, the Commission, pursuant to a September 20, 1996 Superior Court judgment and subsequent settlement agreement, paid attorney fees totaling \$33,402. During fiscal 1999, the Commission paid attorney fees totaling \$3,000 pursuant to a Supreme Court judgment and subsequent settlement agreement to settle another matter. As of June 30, 1999, the Commission is involved in litigation in several other matters. Legal counsel is of the opinion that the possibility of financial loss resulting from such litigation is remote.

During fiscal 1997, the Commission reached a settlement with a discharged employee who had filed a complaint with the RI Human Rights Commission and the United States Equal Employment Opportunities Commission alleging that the employee was wrongfully terminated in June 1993 by the Commission's former executive director. The Commission denied the allegation. Pursuant to the settlement agreement, the Commission reinstated the employee and paid damages of \$15,000 during fiscal 1997.

## **Rhode Island Ethics Commission**

### **Notes to Financial Statements Fiscal Years Ended June 30, 1999, 1998 and 1997**

#### **Note 7: Funds Available – Amounts Lapsed to General Fund**

Funds available totaling \$22,985 at June 30, 1997 was lapsed to General Fund surplus as of June 30, 1997.

Negative funds available totaling \$362 at June 30, 1998 was offset by other funds available within the General Fund as of June 30, 1998 and therefore was not carried forward to the next fiscal year.

Funds available total \$47,640 at June 30, 1999. The Commission formally requested that \$45,000 of this total be carried forward to fiscal year 2000 to help finance the computer system project described in Note 5. Subsequently, the Governor recommended that \$27,000 carry forward to fiscal year 2000 and \$20,640 lapse to the General Fund surplus as of June 30, 1999.

#### **Note 8: Out-of-state Travel Expenditures**

Out-of-state travel expenditures in fiscal year 1999 and 1998 totaling \$3,399 and \$3,765, respectively, are net of reimbursements from the Providence Convention Authority of \$2,400 in fiscal 1999 and \$2,000 in fiscal 1998. The Commission received funds from the Providence Convention Authority for its marketing efforts to bring the 1999 Conference of the Council on Governmental Ethics Laws (COGEL) to Rhode Island. The 1999 COGEL conference is scheduled to be held in Providence in December 1999.

#### **Notes 9: Contingencies**

The Commission is involved in litigation filed by former members of the Commission who are seeking compensation of \$100 per meeting for meeting they attended. The RI Department of Attorney General is representing the Commission in this litigation. Legal counsel is of the opinion that the likelihood of an unfavorable outcome and the amount or range of potential loss, if any, cannot be determined.

As of June 1999, the Commission is involved in litigation in several other matter. Legal counsel is of the option that the possibility of financial loss resulting from such litigation is unlikely although possible.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

We have audited the Statements of Appropriations, Expenditures and Funds Available of the Rhode Island Ethics Commission for the fiscal years ended June 30, 1999, 1998 and 1997, and have issued our report thereon dated August 26, 1999. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rhode Island Ethics Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

Internal Control Over Financial Reporting

In planning and performing an audit, we considered the Rhode Island Ethics Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain other matters involving internal control that we reported to management of the Rhode Island Ethics Commission in the findings and recommendations section of this report.

Joint Committee on Legislative Services

This report is intended solely for the information and use of management of the Rhode Island Ethics Commission and the Joint Committee on Legislative Services, General Assembly, State of Rhode Island, and is not intended to be and should not be used by anyone other than these specified parties.

Ernest A. Almonte, CPA, CFE

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August 26, 1999

Auditor General

## II. FINDINGS AND RECOMMENDATIONS

### COMPUTER CONSULTING SERVICES

In October 1997, the Division of Purchases awarded a contract to design and install a computer system for the Ethics Commission. Through July 31, 1998, the entire contract price of \$59,633 had been paid to the consultant. However, the product covered by the contract was not delivered until April 1999, nine months later. In May 1999, the State's Office of Library and Information Services (OLIS) was testing the product to determine whether it was satisfactorily completed.

The Commission was not aware that the total contract price had been paid as of July 1998 because the Commission was not involved in the payment process. This contract was awarded under a relatively new procurement program administered by the Department of Administration. Under this program, the Division of Purchases pre-approved vendors to provide computer consulting services under a master price agreement. The Commission selected a vendor from the list with assistance and guidance from OLIS. OLIS then assigned a technical person (project manager) to oversee the project and ensure that it was delivered on schedule.

The consultant submitted monthly billings for services directly to OLIS. OLIS paid the consultant and then billed the Commission for reimbursement. OLIS did not request reimbursements timely and, additionally, OLIS requested reimbursement for total consultant fees and OLIS charges for services provided to the Commission. Because OLIS did not provide the Commission with the detail of such charges, the Commission did not have an opportunity to review the charges and know the status of the contract payments. The Commission should have been involved in accepting the project and approving final payment to the consultant.

OLIS management advised us that, beginning in fiscal 1999, it has modified its procedures to require a state agency, such as the Commission, to review and approve consultant billings before the consultant is paid.

#### RECOMMENDATION – (for the Department of Administration's Office of Library and Information Services)

1. Strengthen internal control over payment for contractual services:
  - ❑ Provide a copy of each consultant billing to the state agency receiving the services. And require the state agency to review and approve each consultant billing for services, prior to payment.
  - ❑ Pay final consultant billings only after satisfactory completion of the project.

#### Auditee Views

*OLIS management concurs with this recommendation.*

## **INFORMATION PROCESSING OFFICER**

The State Office of Information Processing (OLIS) provides technical support to the Commission on a part-time basis both for on-going computer systems support and, as previously described, to oversee the design and installation of a new computer system. The OLIS project manager assigned to the Commission's project advised us that he was not able to devote his full attention to this project because projects at other state agencies demanded his attention. Due to the complexity of the new computer system and the Commission's dependence on the system for daily operations and storage of confidential information the Commission should determine whether OLIS can satisfactorily meet its needs by supplying part-time technical support or whether the Commission may require a full-time, in-house information processing officer to oversee the day-to-day operation of the system.

### **RECOMMENDATION**

2. Determine whether OLIS can satisfactorily meet the Commission's information processing requirements by supplying part-time technical support or whether the Commission may require a full-time, in-house information processing officer to oversee the day-to-day operation of its computer system.

## **ACCOUNTING FOR FINES RECEIVABLE**

State law (RIGL 36-14-13 (d) and 36-14-19) authorizes the Rhode Island Ethics Commission to assess fines for violations of the Code of Ethics. The maximum fine is \$25,000 for each violation; however, most fines are for smaller amounts. Often, fines are stayed pending appeal in the courts, as provide by law. When the appeal process is completed, the fine is owed (appeal not successful) or not owed (appeal successful).

Gross fines outstanding total \$36,325 at June 30, 1999. Of this total, \$10,300 is receivable (appeal unsuccessful or not appealed), \$5,000 was paid but is held in escrow pending appeal in court, \$18,000 is stayed pending appeal in court and \$3,025 represents fifteen old fines (nine to twenty-one years old based on the original complaint date) pending write-off.

We found that the Commission does not:

- report fines receivable to the State Controller until collected,
- age outstanding fines, or
- have a policy to address the collection or write-off of old uncollected fines, such as the aforementioned total of \$3,025.

### RECOMMENDATION

3. Strengthen internal control over the accounting for fines receivable:
  - report fines receivable to the State Controller,
  - age outstanding fines,
  - establish a policy to address the collection or write-off of old fines.

### INVENTORY OF FURNITURE AND EQUIPMENT

The State Controller requires that state agencies maintain adequate inventory records of computer equipment costing \$500 or more and office furniture and equipment and other equipment costing \$1,000 or more, and perform an annual physical inventory.

We found that the Commission inventories and tags computer hardware, but does not inventory and tag office furniture and other equipment or perform an annual physical inventory.

In addition, we found that the Commission's inventory listing of computer equipment provides for entry of description, quantity and state tag number. However, it does not include the following information that should also be recorded: condition and location (required by state regulations), and manufacturer's serial number, acquisition date and cost (essential elements of a complete description).

### RECOMMENDATION

4. Strengthen internal control over the inventory of furniture and equipment to comply with state regulations:
  - inventory and tag all furniture and equipment,
  - improve the inventory listing of computer equipment by recording the following additional data: condition, location, manufacturer's serial number, acquisition date and cost, and
  - perform a physical inventory of furniture and equipment, annually, and reconcile any differences between the physical inventory and the inventory records.

### Auditee Views

Commission management concurs with this recommendation.