

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF AGRICULTURE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

**AUDITORS OF PUBLIC ACCOUNTS
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Table of Contents

INTRODUCTION	1
COMMENTS	1
FOREWORD	1
RÉSUMÉ OF OPERATIONS:	2
General Fund.....	2
Receipts.....	2
Expenditures	3
Regional Market Operation Fund	3
Agricultural Land Preservation Fund.....	4
Pending Receipts Fund	5
Dog License Fees.....	5
Animal Population Control Program	5
Bureau of Aquaculture.....	5
PROGRAM EVALUATION	6
CONDITION OF RECORDS	11
Revenue.....	11
Inventory Reporting.....	12
Store-Merchandise Inventory and Financial Reporting.....	13
GAAP Reporting.....	14
B-66 Reports	16
Animal Population Control Report	16
Regional Market Lease Agreements and Receipts	17
RECOMMENDATIONS	19
CERTIFICATION	24
CONCLUSION	27

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We have examined the financial records of the Department of Agriculture for the fiscal years ended June 30, 2002 and 2003. This report of that examination consists of the Comments, Recommendations and Certification that follow.

This audit examination of the Department of Agriculture has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating internal control structure policies and procedures established to ensure such compliance. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies.

COMMENTS

FOREWORD:

The Department of Agriculture operates under the provisions of Title 22, Chapters 422 through 425, 427a, 427b, 428a through 437, and 438a through 438d, and Title 26, Chapters 491 through 492 of the General Statutes. The mission of the Department is to foster a healthy economic, environmental and social climate for agriculture by developing, promoting and regulating agricultural businesses; protecting agricultural and aquacultural resources; enforcing laws pertaining to domestic animals; and promoting an understanding of the importance of agriculture to the State's economy. In accordance with Section 26-192a of the General Statutes, the Department of Agriculture administers the Shellfish Sanitation program to ensure safe shellfish areas for commercial and recreational harvesting. The Agency also leases submerged land to the aquaculture industry for shellfish culture. Shirley Ferris was appointed Commissioner on February 3,

1995, and served in that capacity until March 1, 2003. Bruce Gresczyk was appointed Acting Commissioner on March 7, 2003, and continues to serve in that capacity.

RÉSUMÉ OF OPERATIONS:

General Fund:

Receipts:

General Fund receipts of the Department of Agriculture consisted primarily of licenses, fees, renting of oyster grounds, grants, and refunds of expenditures. Receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenue and Other Receipts:			
Refunds of Expenditures:			
Current Year	\$ 14,630	\$ 11,320	\$ 10,621
Prior year	4,164	532,486	685,312
Other	376	525	2,041
Analysis of feeds and fertilizers	406,780	392,129	456,029
Oyster grounds	728,385	736,219	711,071
Licenses	273,348	229,406	243,237
Miscellaneous receipts	<u>64,606</u>	<u>59,744</u>	<u>58,724</u>
Total Revenue and Other Receipts	<u>1,492,289</u>	<u>1,961,829</u>	<u>2,167,035</u>
Restricted Contributions:			
Federal Grants	454,865	1,681,095	649,021
Grants other than Federal	298,639	376,654	551,383
Miscellaneous contributions	<u>2,188</u>	<u>5,833</u>	<u>1,148</u>
Total Restricted Contributions	<u>755,692</u>	<u>2,063,582</u>	<u>1,201,552</u>
 Total General Fund Receipts	 <u>\$2,247,981</u>	 <u>\$4,025,411</u>	 <u>\$3,368,588</u>

The increase in receipts during the 2001-2002 fiscal year was caused primarily by an increase in refunds of prior year expenditures of \$528,322 and in increase in Federal Grants of \$1,226,230. The increase in prior year refunds occurred because the reimbursement of General Fund expenditures by the Dog Fund for the 2000-2001 fiscal year was not transferred to the General Fund until the 2001-2002 fiscal year. The Federal grants increased because the Department received seven new Federal grants during the 2001-2002 fiscal year.

The decrease in receipts during the 2002-2003 fiscal year was caused primarily by a decrease in Federal Grants of \$1,032,074.

Expenditures:

Expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Budgeted Accounts:			
Personal services	\$3,698,164	\$3,806,003	\$3,728,199
Contractual services	691,720	710,989	682,948
Commodities	222,308	208,692	213,100
Sundry charges	287	40,795	7,248
State aid grants	157,408	161,211	157,854
All other	<u>9,774</u>	<u>900</u>	<u>0</u>
Total Budgeted Accounts	<u>4,779,661</u>	<u>4,928,590</u>	<u>4,789,349</u>
Restricted Accounts:			
Other than Federal	210,451	346,696	673,352
Federal	<u>431,932</u>	<u>1,276,876</u>	<u>994,845</u>
Total Restricted Accounts	<u>642,383</u>	<u>1,623,572</u>	<u>1,668,197</u>
 Total Expenditures	 <u>\$5,422,044</u>	 <u>\$6,552,162</u>	 <u>\$6,457,546</u>

Personal services represent the majority of expenditures during the audited period. Those expenditures increased by \$107,839 during the 2001-2002 fiscal year primarily because of collective bargaining increases affecting salary and wages for full time employees and due to the payment of accrued leave at separation. Personal services decreased by \$77,804 during the 2002-2003 fiscal year primarily due to the retirement of several individuals. Sundry charges increased by \$40,508 primarily due to the payment of an indemnity to the owner of a flock of chickens that were destroyed due to exposure to the Avian Influenza.

The increase in expenditures during the 2001-2002 and 2002-2003 fiscal years for Other than Federal Restricted Accounts was caused primarily by the reinstatement of the Animal Population Control Program on December 15, 2001, which had been suspended on March 1, 2000.

The increase in expenditures for the Federal restricted accounts during the 2001-2002 fiscal year was caused primarily by the implementation of several new Federal grants.

Regional Market Operation Fund:

The Regional Market Operation Fund is a special revenue fund that operates under the provisions of Section 22-75 of the General Statutes. This Fund maintains the operating revenues and expenditures of the Connecticut Marketing Authority. The Connecticut Marketing Authority operates under the provisions of Sections 22-62 through 22-78a of the General Statutes. The Marketing Authority develops and

maintains marketing facilities to provide an economical distribution of Connecticut's agriculture.

The operating revenue of this Fund consisted primarily of rental payments received on buildings and properties of the Connecticut Marketing Authority. Receipts for the 2000-2001 fiscal year totaled \$879,797. Receipts for the 2001-2002 and 2002-2003 fiscal years totaled \$876,909 and \$867,711, respectively.

A summary of operating expenditures for this Fund during the audited period and those of the previous fiscal year follow:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Personal services	\$338,777	\$361,070	\$305,596
Contractual services	123,615	214,295	173,962
Commodities	18,989	19,296	36,125
Sundry charges	135,330	146,533	119,205
Equipment	<u>1,000</u>	<u>6,774</u>	<u>24,778</u>
Total	<u>\$617,711</u>	<u>\$747,968</u>	<u>\$659,666</u>

In addition to the above expenditures, the State Treasurer paid debt service on bonds from this Fund totaling \$169,632 for the 2000-2001 fiscal year and \$170,305 and \$143,941 for the 2001-2002 and 2002-2003 fiscal years, respectively.

Personal services represent the majority of expenditures during the audited period. Those expenditures increased by \$22,293 during the 2001-2002 fiscal year primarily because contractual salaries and wages increased as a result of two vacant positions being filled. Personal services decreased by \$55,474 during the 2002-2003 fiscal year primarily due to an increase in vacancies due to retirements and layoffs and because contractual salaries and wages were paid for only a portion of the year. Contractual services increased by \$90,680 during the 2001-2002 fiscal year due to renovation costs resulting from a fire in one of the buildings at the Regional Market.

Agricultural Land Preservation Fund:

The Agricultural Land Preservation Fund is a capital projects fund from which expenditures are made in conjunction with the State's program for the preservation of agricultural land. This program is administered by the Agency under the provisions of Title 22, Chapter 422a, of the General Statutes.

Fund expenditures for the 2000-2001 fiscal year totaled \$155,016. Expenditures for the 2001-2002 and 2002-2003 fiscal years totaled \$1,997,815 and \$2,579,894, respectively. The expenditures consisted primarily of payments for the purchase of development rights to farmland in Connecticut.

Pending Receipts Fund:

This Fund is primarily used by the Agency for the collection of dog license fees and shellfish taxes and rents, which are subsequently distributed to the State and appropriate municipalities. The total receipts of this Fund for the 2000-2001, 2001-2002 and 2002-2003 fiscal years was \$740,213, \$1,191,247 and \$740,437, respectively.

Dog License Fees:

Under the provisions of Section 22-347 of the General Statutes, town treasurers or other fiscal officers are required to remit a portion of dog license fees to the State. Since the Department of Agriculture oversees the regulatory and enforcement activities for canine control, the Agency has been designated to collect and account for these fees before distribution is made to the State Treasurer.

Animal Population Control Program:

The Animal Population Control Program (APCP) operates under the provisions of Sections 22-380e through 22-380m of the General Statutes. The APCP was designed to increase adoption rates and reduce the number of unwanted animals by encouraging vaccinations and sterilizations. The Program is administered by the Agency as a restricted account within the General Fund. This APCP account operates with revenue it receives from surcharges for dog licenses issued, municipal pound adoption fees and revenue from the sale of "Caring for Pets" license plates.

Bureau of Aquaculture:

The Bureau of Aquaculture is responsible for providing information, advisory service and direct assistance to both recreational and commercial shellfish farmers. The Bureau manages and regulates shellfish farming activities within the State. The Department of Agriculture, through its Bureau of Aquaculture, is responsible for collecting taxes and lease rental payments from State and local shellfish grounds. The shellfish grounds are under the jurisdiction of the State except for the jurisdiction of the local shellfish grounds of the municipalities of Milford, New Haven, West Haven and Westport as provided by the provisions of Section 26-257 of the General Statutes. Receipts from shellfish grounds under the jurisdiction of the municipalities are distributed to those municipalities after the close of each fiscal year. The Bureau also establishes the fees charged for shellfish farming licenses and provides the procedures for determining the assessment on shellfish franchise taxes in the State.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. A program evaluation was conducted as part of our prior audit and was issued as a separate report. The objective of that review was to determine if the Department of Agriculture's Bureau of Regulation and Inspection had established and utilized adequate management control systems to measure, report and monitor its regulation of milk and livestock production, milk processing and distribution in providing the public with a safe supply of milk and milk products and the prevention and/or control of animal diseases. For our current audit, we have conducted a follow-up review of that topic in addition to a new program evaluation on the Connecticut Grown Program.

Bureau of Regulation and Inspection Divisions of Milk Safety and Animal Health:

Our prior review focused primarily on the management control system and the administration of milk inspections and the taking of livestock blood samples, the administration of laboratory tests, the administration of consumer complaints and the effective use of computer technology.

In our prior review we reported five recommendations. We reported that the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection did not have an effective system for documenting and recording consumer complaints. Our follow-up review indicated that the Department had taken steps towards corrective action. The Department had instituted a system to track all complaints from the date the complaint is received to its final disposition. Therefore, this recommendation will not be repeated. However, because limited progress has been made in the other areas reviewed, we are repeating the recommendations as follows.

Management Control System – Operations Manual:

- Criteria:* An Agency's administrative operations manual can provide staff and management with a defined, consistent and authorized approach for handling various administrative situations.
- Condition:* The Agency does not have a written operations manual for the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection.
- Effect:* Inconsistent handling of certain situations in a manner that is not consistent with Agency policy may occur.
- Cause:* We were informed that the establishment of a written operations manual has been delayed due to various factors including staffing issues, the outbreak of the avian influenza, the seizure of twenty-nine horses, and the Agency's relocation in February 2004.

Recommendation: The Agency should establish an operations procedures manual for its Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection. (See Recommendation 8.)

Agency Response: “Procedures for certain tasks have already been completed and others are underway.”

Management Control System – Reporting System:

Criteria: The ability to monitor and control the economic and effective operations of the Agency’s Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection requires a sound reporting system.

Condition: The Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection do not have an effective reporting system. Current activity reports are prepared manually on a monthly or weekly basis and are not cumulative in nature. Historical data is not maintained in a manner that is readily available for review by management for reference or for supervisory purposes. There is no cumulative positive reporting of the various inspections that could assist in identifying strengths and weaknesses in the inspection results and process. In addition, the results of the individual inspections are rarely reported directly to management unless there is a negative result or if the inspection requires some other form of Agency action.

Effect: Without sound reporting, the effectiveness of the scheduling of inspections and staff performance is difficult to measure.

Cause: We were informed that the Agency has not had the resources or staff to create and maintain an automated reporting system.

Recommendation: The Agency should establish a sound reporting system for the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection to provide historical and definitive information that can be used by management to make effective operational decisions. (See Recommendation 9.)

Agency Response: “After the last audit the agency was in contact with DOIT to arrange for assistance through DOIT. However, with their changing environment we have been unable to obtain it. We will continue to pursue their input as well as funding through our budgetary process.”

Laboratory Tests:

- Criteria:* The ability to summarize and access historical data is an important part of an Agency's reporting system. Such a system allows management to obtain or compare historical and current data about its operations.
- Condition:* Currently, the Bureau of Regulation and Inspection is using a manual system to collect data about milk and animal testing. This system appears to be adequate to protect the health of the general public and the various farm animals tested. However, this data is not summarized nor are historical summaries of such testing easily accessible to management or staff of the divisions.
- Effect:* Management is unable to obtain or compare historical and current data about its operations.
- Cause:* The cause is due to lack of information technology staff. Also, we were informed that there is uncertainty as to whether the Department can obtain the cooperation they believe is needed from other State agencies.
- Recommendation:* The Agency should establish and maintain a system to record and summarize the results of testing on milk samples and of livestock blood samples. (See Recommendation 10.)
- Agency Response:* "We are determining our needs and will include funding requests in our future budget (2006 and 2007)."

Computer Technology:

- Criteria:* The use of computer technology can promote more productive and efficient use of time and effort by the Agency. Computers make information more readily available and they also allow information to be more easily sorted and retrieved.
- Condition:* Currently, management of the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection manually sorts through documents and/or reports to review performance or results of inspections or test samples of milk and animals taken over a period of time. Due to the limited staff available to the Bureau, which is mostly comprised of inspectors, the manual processing of administrative information is prohibitive in terms of the time required.

Effect: Data and records that are not processed in the most efficient manner can result in more errors and untimely reporting. Events of the past become subject to the recollection and experience of employees rather than being available as a resource.

Cause: We were informed that the cause is due to a lack of information technology staff.

Recommendation: The Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection should utilize the Agency's available computer technology and should continue to seek assistance from the Department of Information Technology. (See Recommendation 11.)

Agency Response: "Some progress has already been made in this area in the development of a database for certain animal health reporting and tracking using federal grant funding."

Connecticut Grown Program:

Section 22-38a of the General Statutes states that the Commissioner of Agriculture shall establish and administer a program to promote the marketing of farm products grown and produced in Connecticut for the purpose of encouraging the development of agriculture in the State. This program is known as the "Connecticut Grown" program.

The Connecticut Grown Program is an ongoing initiative to increase the demand for Connecticut products from within and from outside the region, increase sales and value of Connecticut products, increase farm product profitability, increase farm numbers and production to ensure equilibrium of supply and demand, diversification of farm products and farm use capabilities, increase visibility of Connecticut products via the "Connecticut Grown Logo," and to improve and provide quality assurance and educate the consumer "at large". The mission of the Connecticut Grown Program is to market Connecticut agricultural products in as many different venues as possible.

Section 22-38 of the Connecticut General Statutes states that only farm products grown and eggs produced in Connecticut or within a ten-mile radius of where they are sold shall be advertised or sold in Connecticut as "Native," "Native-Grown," "Local," "Locally Grown" or under terms of similar import. Any person, firm, partnership or corporation advertising farm products as "Native," "Native-Grown," "Local" or "Locally-Grown" shall be required to furnish proof that such products were grown or produced within the specified region if requested to do so by the Commissioner of Agriculture. Any person who violates any provision of this section shall be fined not more than twenty-five dollars for each violation. Public Act 03-161 modified the statute to include the term "Connecticut-Grown".

Our review concentrated on determining what the Department is doing to increase the demand, sales, and visibility of Connecticut products through the use of the Connecticut Grown logo. Our review concentrated on the areas of: (1) use of Connecticut grown pricing cards, posters, merchandise, etc.; (2) food shows and expositions; (3) publications and media releases; and (4) joint venture grants awarded to commodity groups to promote products through the use of the Connecticut Grown logo. Our review also included determining what procedures the Department has in place to ensure that only locally grown products are marketed as “Connecticut Grown”.

Our review disclosed that the Department’s performance in promoting the Connecticut Grown program appears to be adequate. However, the Department’s procedures to ensure that only locally-grown products are marketed as “Connecticut Grown” appear to be lacking and we believe the following recommendation is warranted.

Consumer Complaints:

Criteria: Correspondence and communication with the public is an important part of an agency’s responsibilities. Part of this responsibility is to ensure that complaints are investigated.

Condition: The Department receives complaints from outside sources regarding parties that are improperly advertising farm products and eggs as “Native,” “Native-Grown,” “Local,” or “Locally-Grown” products when the farm products and eggs do not meet the requirements for those designations. The Department investigates these allegations but does not have an effective system for documenting these complaints.

Effect: The lack of an effective system for tracking and summarizing complaints creates a weakness in the Agency’s communication system and could result in not all complaints being investigated, especially in the event of staff changes.

Cause: Due to the small size of the Agency and close working conditions, the Agency relies on an informal communication system. The staff is generally aware of who has investigated which complaints and relies on verbally communicating with other agency employees rather than formally documenting the information.

Recommendation: The Agency should establish a formal system for tracking and summarizing complaints related to the Connecticut Grown Program. (See Recommendation 12.)

Agency Response: “Consumer complaints are effectively and quickly responded to by going to the source of the complaint. A system will be created for documenting all complaints and actions taken.”

CONDITION OF RECORDS

Our review of the records of the Department of Agriculture revealed the following areas that warrant comment.

Revenue:

Criteria: Section 4-32 of the General Statutes requires that an agency shall account for receipts within 24 hours and if the total receipts are five hundred dollars or more, deposit the same within twenty-four hours of receipt. Total daily receipts of less than \$500 may be held until the receipts total \$500, but not for a period of more than seven calendar days.

Condition: Our review of 175 transactions totaling \$168,060 revealed that 48 receipts totaling \$9,226 were deposited between one and seven days late and 45 receipts totaling \$38,392 were accounted for between one and seven days late.

Effect: In these instances the Agency was not in compliance with the provisions of Section 4-32 of the General Statutes. This deprives the State of the timely receipt and use of revenue.

Cause: Although the receipts in question were found throughout the Department, the majority of the late depositing and reporting of receipts were for the issuance of milk dealer licenses, feed registrations and fertilizer registrations. There appears to be several reasons for the late deposits and late reporting. First, the Agency verifies the accuracy of the payment, issues the license and then makes the deposit and submits the CO-39 Deposit Slip. This process can take more than the allotted time. Second, the volume of licenses and registrations to be processed can be extensive during certain times of the year. Finally, there were staffing reductions during the audit period.

Recommendation: All receipts should be deposited and accounted for in accordance with the provisions of Section 4-32 of the General Statutes. (See Recommendation 1.)

Agency Response: "Until October 2003, the agency was unable to refill the sole position - vacated by retirement in October 2001 - responsible for maintaining the automated license system, including receiving and preparing fees for deposit. Additionally, illnesses of some of the remaining staff, preparation and training for Core-CT and other

variables placed tremendous strains on the ability of the Business Office. The refill of the licensing position and requesting waivers, as needed, through the Treasurer's Office of the 24-hour deposit rule at peak renewals periods should address this finding."

Inventory Reporting:

Criteria: Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory account in the form prescribed by the State Comptroller. The Agency is required to transmit annually, on or before October first, to the Comptroller a detailed inventory, as of June thirtieth, of all property, real or personal, owned by the State and in custody of such department.

Standards and procedures for inventory control are included in the State of Connecticut Property Control Manual. The Property Control Manual requires that State Agencies use Form CO-853, Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles), to report losses/damages to property other than vehicles pertaining to theft, vandalism, criminal malicious damage, missing property (cause unknown) or damages caused by wind, fire or lightening.

Condition: Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2002 and 2003, disclosed that the Department did not report merchandise for sale for the Department's store on the stores and supplies line for both fiscal years. However, we are unable to determine the amount that should have been reported because supporting documentation was not available.

Our review also disclosed that the Department did not have a Form CO-853 Report of Lost Property on hand to support twenty-four controllable items totaling \$5,537 that were removed from the Department's inventory listing when they were discovered to be lost.

Effect: The Department's report of inventory to the State Comptroller was inaccurate. There was non-compliance with the State of Connecticut Property Control Manual.

Cause: Stores and supplies were not reported because the employee responsible for the preparation of the CO-59 had not been informed that the Department was no longer selling merchandise on consignment but instead was purchasing the goods to be sold.

The Department did not prepare a Form CO-853 Report of Lost Property due to administrative oversight.

Recommendation: The Department should institute procedures to ensure that the inventory reported to the State Comptroller is complete and accurate and that the CO-853 Report of Lost or Stolen Property is prepared when items are lost or damaged. (See Recommendation 2.)

Agency Response: “A complete inventory has been requested and will be compiled by the Marketing Bureau of the Store and merchandise will be reported on the 2004 CO-59 Fixed Assets/Property Inventory Report. Reports of Lost Property will be filed for any future losses.”

Store – Merchandise Inventory and Financial Reporting:

Criteria: The maintenance of an accurate perpetual inventory of merchandise for sale is a sound business practice and an important internal control for the administration of a retail store operation.

The preparation of financial statements is an effective administrative procedure to provide information that can be used to make informed administrative decisions for the monitoring and controlling of a business operation.

Condition: The Department’s store has a perpetual merchandise inventory, consisting of approximately 497 items, which is maintained on a computerized retail accounting system. Our review of a current listing of merchandise inventory balances indicated that 141 items had negative and thus incorrect inventory balances. These negative inventory balances in some cases ranged from one to 471 items suggesting that the inventory record sales were in excess of merchandise available for sale for these items. Our review also disclosed that financial reports, including income and gross profit information, were not readily available.

Effect: Lack of accurate perpetual inventory records creates a weakness in inventory control and inaccurate financial reporting. The risk of inappropriate activity increases and the ability of management to detect such activity decreases. Without accurate financial reports, management is hindered from making informed decisions on the store’s operations.

Cause: It appears that an accurate beginning balance was not entered into the system. In addition, the Department’s system appears to be

out-dated and unable to provide the information needed by management.

Recommendation: The Department should take an accurate physical inventory of store merchandise and appropriately adjust the computerized perpetual merchandise inventory records. In addition, the Department should consider implementing an inventory system that will provide the financial reporting tools needed by management. (See Recommendation 3.)

Agency Response: “Although an updated store management inventory system has been requested, the funding has not been available to pursue the issue. However, Core-CT is adding an Asset Management System to include an inventory system for this type of activity. It will require the upkeep of receiving, selling, disposing or returning of merchandise.”

GAAP Reporting:

Criteria: The State Accounting Manual and the State Comptroller's Generally Accepted Accounting Principles (GAAP) closing and reporting instructions to all State agencies specify the procedures and time frame for completing reporting forms.

Condition: Our review of the GAAP Reporting Form “Compensated Absences” submitted by the Department for the fiscal years ended June 30, 2002 and 2003, disclosed the following.

For the 2001-2002 fiscal year the following General Fund amounts were misstated.

- The number of accumulated vacation leave hours reported was overstated by 407 hours.
- The number of accumulated sick leave hours for employees with less than 5 years of service was overstated by 10 hours.
- The number of accumulated sick leave hours for employees with 5 or more years of service was overstated by 7 hours.

For the 2002-2003 fiscal year the following General Fund amounts were misstated.

- The number of earned vacation leave hours was overstated by 12 hours.

- The number of earned sick leave hours for employees with 5 or more years of service was overstated by 9,370 hours.

In addition, for the 2002-2003 fiscal year, the following amounts for the Regional Market Operation Fund were misstated.

- The number of earned vacation leave hours was understated by six hours.
- The number of earned sick leave hours for employees with less than 5 years of service was overstated by 2 hours.

Our review of GAAP Reporting Form “State as Lessor” submitted by the Department for the fiscal years ended June 30, 2002 and 2003, disclosed the following.

- For the 2001-2002 fiscal year, \$802,493 of the \$1,295,040 total future minimum revenue from building leases reported and \$48,350 of the \$2,150,550 total future minimum revenue from land leases reported were not supported by adequate supporting documentation.
- For the 2002-2003 fiscal year, \$65,222 of the \$307,315 total future minimum revenue from building leases reported was not supported by adequate supporting documentation.

Effect: The State's GAAP basis financial statements could contain misstatements.

Cause: The errors on the “Compensated Absences” report were due to clerical error. In addition, the Department did not have an automated system for tracking attendance records during the audit period. The errors on the “State as Lessor” report were caused because the Department included rental revenues for tenants for whom there were not valid leases on hand and due to clerical errors.

Recommendation: The Department should institute procedures to ensure that GAAP forms are prepared accurately and in accordance with instructions. (See Recommendation 4.)

Agency Response: “The errors on the “Compensated Absences” report should be addressed with the Core-CT HRMS reporting capabilities, however, a closer review of the information provided for inclusion will be done.”

“The Regional Market is aware of what and how the lease revenues should be reported on future GAAP reports.”

B-66 Reports:

Criteria: State agencies are required to prepare and submit a Form B-66 Monthly Analysis of Appropriation Requirements to the Office of Policy and Management by the tenth of the month following the month the report encompasses.

Condition: Our review of the B-66 Monthly Analysis of Appropriation Requirements during the 2001-2002 and 2002-2003 fiscal years revealed that reports were not prepared for the months of March 2003 thru June 2003.

Effect: This represents non-compliance with OPM reporting instructions.

Cause: The individual responsible for the preparation of the report was out on extended leave.

Recommendation: The Department should institute procedures to ensure that all required reports are prepared. (See Recommendation 5.)

Agency Response: “Although no formal B-66 was prepared for certain months during our Accountant’s extended leave, our Budget Analyst at OPM was advised. Adhoc information was provided to her as requested. We will continue to strive to comply with reporting mandates.”

Animal Population Control Report:

Criteria: Section 22-380k of the General Statutes requires the Commissioner to submit an annual report to the joint standing committee of the General Assembly having cognizance of matters relating to the environment. The report should evaluate the effectiveness of and recommend appropriate statutory or regulatory changes for the animal population control program.

Condition: The last animal population control report submitted by the Agency was for the 2000-2001 fiscal year.

Effect: The Agency is not in compliance with the Statute and the General Assembly is not informed about the status of the animal population control program.

Cause: The cause could not be determined.

Recommendation: The Agency should prepare and submit the animal population control program report to the General Assembly as required by Section 22-380k of the General Statutes. (See Recommendation 6.)

Agency Response: “Having received the information required to prepare them, the 2001 and 2002 Animal Population Reports will be prepared. Future reports will be prepared as required.”

Regional Market Lease Agreements and Receipts:

Background: The Connecticut Marketing Authority (CMA) operates within the Department of Agriculture and is responsible for the Regional Market located in Hartford.

Criteria: Section 22-64 of the General Statutes states that the Marketing Authority may lease the land or markets under the control of the Authority. Such leases shall be for periods determined by the Authority, not to exceed ninety-nine years, and may be renewed for like periods. The Marketing Authority shall, for the purpose of providing for the payment of the expenses of the market and the construction, improvements, repairs, maintenance and operation of its properties, fix, charge and collect rentals and charges for stores, stalls, space, buildings, equipment and other appurtenances, privileges and services furnished or performed, in or in connection with the market. Sound business practice dictates that there should be an appropriate lease agreement between the Authority and the tenants to define the duties and rights of both parties under the existing lease agreement.

Section 3-7 of the General Statutes states that any uncollectible claim for an amount of one thousand dollars or less may be cancelled upon the books of any State department or agency upon the authorization of the head of such department or agency. The Secretary of the Office of Policy and Management (OPM) may authorize the cancellation upon the books of any State department or agency of any uncollectible claim for an amount greater than one thousand dollars due to such department or agency. Upon the recommendation of the Attorney General, the Governor may authorize the compromise of any disputed claim by or against the State or any department or agency thereof, and shall certify to the proper officer or department or agency of the State the amount to be received or paid under such compromise. Such certificate shall constitute sufficient authority to such officer or department or agency to pay or receive the amount therein specified in full settlement of such claim.

Condition: Our review of the lease agreements and receipts for the twenty-eight tenants at the Regional Market during the fiscal years ended June 30, 2002 and 2003, disclosed the following.

- The Department was unable to provide us with lease agreements for eleven of the tenants and seven were operating under leases that expired on June 30, 2001.
- For the ten tenants operating with leases, the approval of the Attorney General's Office was not indicated on nine of the lease agreements and there were no certificates of insurance on hand for five of the tenants.
- One tenant did not pay and currently is not paying rent and no action has been taken by the CMA.
- The CMA relieved one tenant of its obligation of \$4,808, representing two months of rent, without obtaining approval from the Governor.
- One lease agreement required an increase in monthly rent effective July 1, 2003, but the tenant has continued to pay at the 2002-2003 rate.

Effect: Incomplete contract terms can result in uncertainty for the parties involved. In addition, all amounts owed to the State have not been collected.

Cause: The CMA has not enforced the signing of lease agreements by tenants at the Regional Market. We were informed that the Tenants' Association refused to sign new lease agreements due to the uncertainty of the future use of the Regional Market and rising rental fees. In addition, the CMA does not have procedures in place to ensure that all rents owed are collected. The CMA relieved one tenant of its rental obligation in order to encourage the settlement of a dispute between two tenants regarding the electrical bill that they shared.

Recommendation: The Connecticut Marketing Authority should establish and implement proper procedures to ensure that all tenants have an appropriate lease agreement and that the terms of the agreements are followed. The Department should comply with Section 3-7 of the General Statutes. (See Recommendation 7.)

Agency Response: "All new leases will be in place starting with fiscal year 2004-2005. Proper approvals, as required, will be obtained for any outstanding rental obligation relieved by the Connecticut Market Authority. Arrangements have been made with the tenant to pay back due amounts."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Agency should continue its efforts to revise the annual Town Dog Fund Report to include sufficient information so that the Agency can make a reasonable determination that the reports are accurate and can be reconciled to the license fees submitted to the Dog Fund. The Agency has complied with this recommendation.
- The Agency should deposit revenue in accordance with Section 4-32 of the General Statutes or in accordance with waivers as provided by the State Treasurer. This recommendation is repeated. (See Recommendation 1.)
- The Agency should prepare and submit the animal population control program report to the General Assembly as required by Section 22-380k of the General Statutes. This recommendation is repeated. (See Recommendation 6.)
- The Agency should establish an operations procedures manual for its Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection. This recommendation is repeated. (See Recommendation 8.)
- The Agency should establish a sound reporting system for the Divisions of Milk Safety and Animal Health of the Bureau of Inspection and Regulation to provide historical and definitive information that can be used by management to make effective operational decisions. This recommendation is repeated. (See Recommendation 9.)
- The Agency should establish a system for tracking and summarizing consumer complaints in the area of Milk Safety and Animal Health. The Agency has complied with this recommendation.
- The Agency should make use of currently available computer technology to establish and maintain a system to record and summarize the results of testing milk samples and livestock blood samples. This recommendation is repeated in a modified form. (See Recommendation 10.)
- The Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection should utilize the Agency's available computer technology. This recommendation is repeated in a modified form. (See Recommendation 11.)

Current Audit Recommendations:

- 1. All receipts should be deposited and accounted for in accordance with the provisions of Section 4-32 of the General Statutes.**

Comment:

Our review of 175 transactions totaling \$168,060 revealed that 48 receipts totaling \$9,226 were deposited between one and seven days late and 49 receipts totaling \$39,061 were accounted for between one and seven days late.

- 2. The Department should institute procedures to ensure that the inventory reported to the State Comptroller is complete and accurate and that the CO-853 Report of Lost or Stolen Property is prepared when items are lost or damaged.**

Comment:

Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2002 and 2003, disclosed that the Department did not report merchandise for sale for the Department's store on the stores and supplies line for both fiscal years. Our review also disclosed that the Department did not have a Form CO-853 Report of Lost Property on hand to support twenty-four controllable items totaling \$5,537 that were removed from the Department's inventory listing when they were discovered to be lost.

- 3. The Department should take an accurate physical inventory of store merchandise and appropriately adjust the computerized perpetual merchandise inventory records. In addition, the Department should consider implementing an inventory system that will provide the financial reporting tools needed by management.**

Comment:

The Department's store has a perpetual merchandise inventory, consisting of approximately 497 items, which is maintained on a computerized retail accounting system. Our review of a current listing of merchandise inventory balances indicated that 141 items had negative and thus incorrect inventory balances. These negative inventory balances in some cases ranged from one to 471 items suggesting that the inventory record sales were in excess of merchandise available for sale for these items. Our review also disclosed that financial reports, including income and gross profit information, were not readily available.

- 4. The Department should institute procedures to ensure that GAAP forms are prepared accurately and in accordance with instructions.**

Comment:

Our review of GAAP Reporting Forms “Compensated Absences” and “State as Lessor” submitted by the Department for the fiscal years ended June 30, 2002 and 2003, disclosed numerous errors.

- 5. The Department should institute procedures to ensure that all required reports are prepared.**

Comment:

Our review of the B-66 Monthly Analysis of Appropriation Requirements during the 2001-2002 and 2002-2003 fiscal years revealed that reports were not prepared for the months of March 2003 thru June 2003.

- 6. The Agency should prepare and submit the animal population control program report to the General Assembly as required by Section 22-380k of the General Statutes.**

Comment:

The last animal population control report submitted by the Agency was for the 2000-2001 fiscal year.

- 7. The Connecticut Marketing Authority should establish and implement proper procedures to ensure that all tenants have an appropriate lease agreement and that the terms of the agreements are followed. The Department should comply with Section 3-7 of the General Statutes.**

Comment:

Our review of the lease agreements and receipts for the twenty-eight tenants at the Regional Market during the fiscal years ended June 30, 2002 and 2003, disclosed that the Department was unable to provide us with lease agreements for eleven of the tenants and seven were operating under leases that expired on June 30, 2001. For the ten tenants operating with leases, the approval of the Attorney General’s Office was not indicated on nine of the lease agreements and there were no certificates of insurance on hand for five of the tenants. One tenant did not pay and currently is not paying rent and no action has been taken by the Connecticut Marketing Authority. The Connecticut Marketing Authority relieved one tenant of its outstanding rental obligation of \$4,808 without obtaining approval from the

Governor. One lease agreement required an increase in monthly rent effective July 1, 2003, but the tenant has continued to pay at the 2002-2003 rate.

- 8. The Agency should establish an operations procedures manual for its Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection.**

Comment:

The Agency does not have a written operations manual for the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection.

- 9. The Agency should establish a sound reporting system for the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection to provide historical and definitive information that can be used by management to make effective operational decisions.**

Comment:

The Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection do not have an effective reporting system.

- 10. The Agency should establish and maintain a system to record and summarize the results of testing on milk samples and of livestock blood samples.**

Comment:

Currently, the Bureau of Regulation and Inspection is using a manual system to collect data about milk and animal testing. This system appears to be adequate to protect the health of the general public and the various farm animals tested. However, this data is not summarized nor are historical summaries of such testing easily accessible to management or staff of the divisions.

- 11. The Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection should utilize the Agency's available computer technology and should continue to seek assistance from the Department of Information Technology.**

Comment:

Currently, management of the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection manually sorts through documents and/or reports to review performance or results of inspections or test samples of milk and animals taken over a period of time. Due to the limited staff available to the Bureau, which is comprised of mostly inspectors, the manual processing of administrative information is prohibitive in terms of the time required.

12. The Agency should establish a formal system for tracking and summarizing complaints related to the Connecticut Grown Program.

Comment:

The Department receives complaints from outside sources regarding parties that are improperly advertising farm products and eggs as “Native,” “Native-Grown,” “Local,” or “Locally-Grown” products when the farm products and eggs do not meet the requirements for those designations. The Department investigates these allegations but does not have an effective system for documenting these complaints.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Agriculture for the fiscal years ended June 30, 2002 and 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, 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 grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department Agriculture for the fiscal years ended June 30, 2002 and 2003, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Department of Agriculture complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Agriculture is the responsibility of the Department of Agriculture's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, 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 for the fiscal years ended June 30, 2002 and 2003, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these 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 immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Agriculture is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Agriculture's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: untimely deposits of receipts; inaccurate merchandise inventory and lack of financial reports; and a lack of proper lease agreements and collection of rents by the Connecticut Marketing Authority.

A material or significant 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 noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of 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

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Agriculture during this examination.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts