

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF AGRICULTURE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005*

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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February 11, 2008

**AUDITORS' REPORT  
DEPARTMENT OF AGRICULTURE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

We have examined the financial records of the Department of Agriculture for the fiscal years ended June 30, 2004 and 2005. This report on 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 diversity of the Connecticut agriculture, cultural heritage and its contribution 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.

Bruce Gresczyk was appointed Acting Commissioner on March 7, 2003, and Commissioner on May 28, 2004. Mr. Gresczyk served as Commissioner until April 15, 2005. Since May 20, 2005, F. Philip Prelli has served as Commissioner.

**RÉSUMÉ OF OPERATIONS:**

**General Fund Receipts:**

General Fund receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenue and Other Receipts:			
Refunds of Expenditures:			
Current Year	\$ 10,621	\$	\$
Prior year	685,312		1,312,782
Other	2,041		
Analysis of feeds and fertilizers	456,029	443,871	456,527
Oyster grounds rents	711,071	700,844	786,422
Licenses	243,237	302,295	251,322
Miscellaneous receipts	<u>58,724</u>	<u>72,823</u>	<u>48,937</u>
Total Revenue and Other Receipts	<u>2,167,035</u>	<u>1,519,833</u>	<u>2,855,990</u>
Restricted Contributions:			
Federal Grants	649,021		
Grants other than Federal	551,383		
Miscellaneous contributions	<u>1,148</u>		
Total Restricted Contributions	<u>1,201,552</u>	<u>0</u>	<u>0</u>
 Total General Fund Receipts	 <b><u>\$3,368,587</u></b>	 <b><u>\$1,519,833</u></b>	 <b><u>\$2,855,990</u></b>

The 2004-2005 fiscal year increase in refunds of prior year expenditures occurred because the dog license fee reimbursement of General Fund expenditures for the 2002-2003 fiscal year was not transferred to the General Fund until the 2004-2005 fiscal year. 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.

The significant decrease in Total General Fund Receipts was caused by a change in accounting for Federal contributions and other restricted accounts. Beginning in the 2003-2004 fiscal year, a new Special Revenue Fund was established for those accounts. During that year \$1,538,295 in restricted contributions were deposited to the new Special Revenue Fund referred to above.

**General Fund Expenditures:**

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

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
<b>Budgeted Accounts:</b>			
Personal services	\$3,728,199	\$3,157,794	\$3,354,981
Purchased services, commodities	896,048	831,858	882,489
All other	<u>165,102</u>	<u>158,451</u>	<u>255,836</u>
Total Budgeted Accounts	<u>4,789,349</u>	<u>4,148,103</u>	<u>4,493,306</u>
<b>Restricted Accounts:</b>			
Other than Federal	673,352	0	0
Federal	<u>994,845</u>	<u>0</u>	<u>0</u>
Total Restricted Accounts	<u>1,668,197</u>	<u>0</u>	<u>0</u>
 Total Expenditures	 <b><u>\$6,457,546</u></b>	 <b><u>\$4,148,103</u></b>	 <b><u>\$4,493,306</u></b>

As previously explained, due to a change in accounting, Federal and other restricted accounts were accounted for in a Special Revenue Fund beginning during the 2003-2004 fiscal year. Expenditures from Federal and other restricted accounts totaling \$1,431,260 in the 2003-2004 fiscal year were made from the new Special Revenue Fund. Personal services paid from budgeted accounts fluctuated mainly in expenditures for full-time salaries and wages.

**Special Revenue Funds:**

In addition to the new Fund that was established to account for Federal and other restricted monies, the Department utilized two other special revenue funds during the audited period.

**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.

Fund receipts totaled \$925,292 and \$986,252 during the fiscal years ended June 30, 2004 and 2005, respectively. Fund expenditures totaled \$779,955 and \$850,350 during the same period. Receipts consisted primarily of payments received for rent or use of buildings and properties of the Connecticut Marketing Authority. Fund expenditures consisted mainly of personal services and property maintenance.

**Federal and Other Restricted Accounts Fund:**

This Fund is used to account for certain Federal and other revenues that are restricted from general use and prior to the 2003-2004 fiscal year were accounted for in the General Fund. Fund receipts totaled \$1,538,295 and \$1,852,501 during the fiscal years ended June 30, 2004 and 2005, respectively. Fund expenditures totaled \$1,431,260 and \$1,640,019 during the same period. Receipts consisted primarily of Federal funding, and receipts for the Animal Population Control Program, which was designed to increase adoption rates and reduce the number of unwanted animals by encouraging vaccinations and sterilizations. Expenditures were mainly for the Animal Population Control Program and for providing fresh produce to those with low incomes and nutritionally at risk. Federal funding was provided under the Women, Infants and Children (WIC) Fresh Produce Program and the Senior Farmers Market Nutrition Program.

**Grants to Local Governments and Others Fund:**

Expenditures for this Fund totaled \$691,706 and \$202,354 during the fiscal years ended June 30, 2004 and 2005, respectively, and were mainly for grants for the farm reinvestment program and the farmers environmental assistance program.

**Capital Projects Fund:**

**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 were for payments related to the purchase of development rights for farmland in Connecticut, and, totaled \$439,314 and \$955,245 during the 2003-2004 and 2004-2005 fiscal years, respectively.

**PROGRAM EVALUATION:**

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. A separate report was issued on a program evaluation conducted as part of one of our prior audits. 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 production, processing and distribution; and its regulation of livestock production; 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 leases at the Connecticut Regional Market in Hartford.

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

Our prior audit report contained four recommendations. During our current audit we found that the Department had taken some steps towards corrective action. The Agency developed an operations manual. Therefore that recommendation will not be repeated. However, because progress has not been made in the other areas reviewed, we are combining and repeating the recommendations as follows.

*Criteria:* The Divisions of Milk Safety and Animal Health should have a recordkeeping and reporting system to record and summarize results of testing milk samples and livestock blood samples.

A sound recordkeeping and reporting system is required to:

- monitor and control operations.
- summarize and access current and historical information.
- promote more productive and efficient use of time and effort.

*Condition:* The Divisions of Milk Safety and Animal Health do not have an effective recordkeeping and reporting system. The systems in place appear to be adequate for protecting the health of the general public and the various farm animals tested, but do not enable management to easily review results of inspections or tests performed over time.

- Current activity reports are prepared manually on a monthly or weekly basis and are not cumulative in nature.
- 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.
- There is no cumulative positive reporting of the various inspections that could assist in identifying strengths and weaknesses in the inspection results and process.

- Historical data is not maintained in a manner that is readily available for management’s reference or supervisory purposes. A manual system is used to collect data about milk and animal testing.

*Effect:*

The following may result without sound reporting:

- The effectiveness of the scheduling of inspections and staff performance may be difficult to measure.
- Management may be unable to obtain or compare historical and current data about its operations.
- Data and records not processed in the most efficient manner can result in more errors and untimely reporting.

*Cause:*

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

*Recommendation:*

The Department should improve its recordkeeping and reporting system for the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection. (See Recommendation 5.)

*Agency Response:*

“The Agency continues to be in contact with DOIT [the Department of Information and Technology] to implement a new licensing and reporting system. A RFI [Request for Information] was completed but DOIT has now required a new RFP [Request for Proposal]. The lack of ongoing funding as well as extra work needed for the RFP has slowed this process down. We will continue to pursue their input as well as funding through our budget process.”

**Regional Market Leases:**

The Connecticut Marketing Authority (CMA) operates within the Department of Agriculture and is responsible for the Regional Market located in Hartford. Section 22-64 of the Connecticut General Statutes provides that the CMA may lease the land or markets under the control of the Authority. At the Regional Market there are three buildings that contain 82 spaces for lease for the selling of agricultural commodities. Our review focused on the transfer of leases when a tenant vacates its leased space.

A standard lease format is used and each individual lease is approved by the Commissioner of the Department of Agriculture, as the Chairman of the CMA; the lessee; and the Office of the Attorney General. The leases allow a lessee to assign its interest in any portion of its leased premises with the written approval of the CMA. This has occurred four times since February 16, 2005.

Regulations permit, but do not require, the CMA to score prospective new tenants or current tenants taking over another tenant's lease. When a lease is assigned, the new lessee has the option to renew the lease at the end of the current lease's term. This circumvents the process of reviewing and scoring multiple applicants for the assigned space. Although we did not find any violations of Regulations or leases, we are presenting the following finding which we believe would bring the Agency's policy closer in line with the spirit and intent of the Regulations.

*Criteria:*

Regulations of CT State Agencies:

Section 22-64-24 provides that any lessee who has been discharged from performing its lease and has received consent from the CMA to cancel his lease shall return said lease to the CMA, which shall have sole authority to dispose of said lease.

Section 22-64-25 provides that it is the intent of the CMA to lease vacated stalls to new applicants and existing tenants in order to accommodate the interest of established tenants for expansion and with those of outside businesses in need of new marketing opportunities and facilities. In leasing of vacant stalls, the CMA may consider score values described in Section 22-64-27.

Section 22-64-27 lists six factors to consider:

1. Diversity of food products within the market
2. Financial history
3. Need of applicant
4. Intention of vacating tenant
5. Expansion of existing tenants – location of vacancy
6. Expansion of existing tenants – number of stalls presently occupied (More stalls earn a lower score.)

Leases:

The standard lease format allows a lessee to assign its interest in any portion of its leased premises with the written approval of the CMA.

*Condition:*

As of June 8, 2007, the Regional Market's 82 leased spaces were occupied by 15 tenants, with almost one-half of the spaces occupied by two tenants. Since February 16, 2005, three out of four assignments of leases were made to those two tenants. This was done with CMA approval, but without the CMA going through the scoring process or formally offering the space to all existing tenants or to outside businesses.

*Effect:*

Although the letter of the Regulations and the leases were complied with, the spirit of the Regulations was violated. The interests of established tenants for expansion and those of outside

businesses in need of new marketing opportunities and facilities were not considered in the assignments of leases.

The process of reviewing and scoring multiple applicants for the assignment of spaces, including consideration of the factors in Section 22-64-27 of the Regulations, was circumvented. This may not have been in the best interest of the State or the agricultural community.

*Cause:* The cause was not determined.

*Recommendation:* When leasing spaces, the CMA should consider the intent of the Regulations Sections 22-64, the process of reviewing and scoring multiple applicants for the assignment of spaces, and the factors in Regulations Section 22-64-27. (See Recommendation 6.)

*Agency Response:* “The current lease approved by the Attorney General’s Office provided that the tenant has the right to transfer the lease with the CT Marketing Authority (CMA) Board’s approval or, as stated above, may return the space to the Authority. This transfer language and procedure has been in effect since 1952 and allows tenants to recoup some of their investment upon lease transfer and providing better upkeep and maintenance at the Market. To modify the procedure would need Board action to change a long standing practice of allowing lease holders to choose who they will transfer their leases to. Even though the lease states that the Board must approve each transfer, the practice has been that the Board approves these leases without applying a grading system.”

## CONDITION OF RECORDS

Our review of the records of the Department of Agriculture revealed the following areas requiring attention.

### **Lease Agreements:**

*Criteria:* Sound business practice dictates that there should be appropriate lease agreements, during the entire lease terms, to define the duties and rights of both parties to the leases.

#### Regional Market:

The Connecticut Marketing Authority (CMA) operates within the Department of Agriculture and is responsible for the Regional Market located in Hartford. Section 22-64 of the Connecticut General Statutes (CGS) provides that the CMA 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 ... 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.

Leases for market tenants require the lessees to provide the CMA with evidence of insurance and evidence of surety bonds or letters of credit.

#### Shellfish Grounds:

Section 26-194 of the CGS provides that the Commissioner of Agriculture may lease shellfish areas, for the purposes of planting and cultivating shellfish, to the highest responsible bidder. Provided a lessee met its obligations, that lessee would have preference in the reletting of such ground for a like term to that granted in the original lease.

### *Condition:*

#### Regional Market:

Our review of the lease agreements for 26 tenants at the Regional Market during both the fiscal years ended June 30, 2004 and 2005; and as of September 13, 2006, disclosed the following.

For the fiscal years ending June 30, 2004 and 2005:

- Seventeen leases were not complete. Two did not exist at all and 15 were complete for only part of the audited period.

- Evidence of insurance was missing for all 26 leases.
- Evidence of surety bonds or letters of credit was missing for 20 of the 24 leases that required them. Four did not exist at all and 16 were complete for only part of the audited period.
- The amounts for six of the surety bonds or letters of credit were lower than required.

As of September 13, 2006:

- Three leases were missing.
- Seventeen insurance certificates were missing.
- Fourteen surety bonds or letters of credit were missing.

Regional Market Billboards:

- The CMA has not had a lease agreement for its billboards since January 15, 1998. In January 2003 the Agency requested proposals for the lease. A memo dated June 30, 2003, contained a rating of six companies that submitted bids. The lessee maintaining the billboards did not submit a formal bid at that time. The Agency did not select a company from the bids received and continued to operate under the lease that expired in 1998.
- The CMA's files did not have any evidence of insurance from the tenant of the billboards.

Shellfish Grounds:

In our review of four leases renewed during our audited period, we found that the four leases were renewed between two weeks and over eight months after the beginning of the new lease periods. We were not provided any documentation to explain the delays.

*Effect:*

Incomplete contract terms can result in uncertainty for the parties involved. This may result in the State having no recourse to collect outstanding fees.

Evidence of tenant insurance is required so the State can verify that the leased CMA property and those working on that property are appropriately covered by the insurance of the tenants.

*Cause:*

Lease requirements were not reviewed or enforced.

*Recommendation:*

In a timely manner, written lease agreements should be signed with each tenant occupying space at the Regional Market, lessees of Regional Market billboards and lessees of shellfish grounds. Procedures should be established to ensure that required

certificates of insurance, and surety bonds or letters of credit, are obtained. (See Recommendation 1.)

*Agency Response:*

“The four Aquaculture leases cited in the report were involved in a lawsuit with the Department of Agriculture and the Attorney General’s Office in a dispute over language changes in the shellfish lease. The Attorney General’s Office verbally recommended to the previous Bureau Director that the leases not be renewed until there was a resolution in the case, the lease holders did not have to sign the revised lease agreements at the time of renewal, therefore the expiration date was exceeded. The issues have since been resolved. Policies have been established at Aquaculture to ensure leases are renewed in a timely manner.”

“The Regional Market will establish procedures with the assistance of the DAS Small Business Unit to ensure that all leases are current and the certificates of insurance and bonds or lines of credit are in place. This will be done in concurrence with the recommendation on GAAP Reporting.”

“There were legal issues the last time the billboards went out to bid. An informal opinion was received from the Attorney General’s Office at that time that the billboard leases could be continued on a month to month basis. We are planning to seek new bids on a billboard contract in 2008.”

**Cash Receipts:**

*Criteria:*

The Agency’s Central Office collects fees mainly for registrations and licenses. The Bureau of Aquaculture and the Connecticut Marketing Authority collect fees primarily for leases. There should be sufficient records and an adequate segregation of duties to ensure that all receipts collected by each location were recorded and deposited, and that the appropriate licenses were issued.

The State Accounting Manual requires that:

- Where feasible, a different employee should open incoming mail, record receipts in a Receipts Journal, deposit receipts, and issue licenses to the remitter.
- Accountability reports should be prepared to compare the cash receipts actually deposited and the amount that should have been accounted for.

*Condition:* At each location the same employee is responsible for the initial recording of receipts and processing the licenses or registrations. There is no independent verification that the amounts received were deposited. Also, no accountability reports were prepared to reconcile the number of licenses issued and registrations processed to actual deposits.

Complete records of licenses and registrations processed at the Central Office were not readily available.

Subsequent to Our Audit Period:

Section 4-33a of the General Statutes requires that State department heads report to us any unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or breakdowns in the safekeeping of any other resources of the State. Pursuant to Section 4-33a, the Department of Agriculture reported to us on May 16, 2007, the untimely depositing of checks and concerns with its licensing system and procedures. On June 25, 2007, we were informed of an apparent theft of \$1,620 between June 2006 and May 2007 and that this matter was being investigated by the State Police.

*Effect:* The chances of loss or misappropriation are increased when adequate controls are not in place. The Agency may not have received all the fees to which it was entitled.

*Cause:* Due to the small size of the Agency the opportunity for segregation of duties is limited. However, the Agency neglected to implement feasible control procedures.

*Recommendation:* Controls over license and registration fees should be improved. Where feasible, the initial recording of receipts should be performed by an employee independent of the processing of licenses and registrations. Accountability reports should be prepared to reconcile the number of licenses issued and registrations processed to actual deposits. Complete records of licenses and registrations should be maintained.  
(See Recommendation 2.)

*Agency Response:* “Aquaculture is implementing a ledger and recording system for checks and cash received. Mail will be opened and recorded by personnel that do not do deposits. Deposit slips will be checked against the ledger. In Licensing and Registration, transmittal slips will be prepared by the licensing system and controls will be developed with the assistance of the DAS Small Business Unit.

All efforts will be made to ensure that anyone opening the mail is not responsible for inputting into the system.”

**Dog License Fees:**

*Background:*

Annually, the Agency sends each town within the State a supply of dog license tags. The towns collect dog license fees and the tags are to be worn by the licensed dogs.

Section 22-347 of the General Statutes requires that each town submit to the Agency a percentage of dog license fees it collects, plus an additional amount for the Animal Population Control Account. Also, if payments are submitted more than 45 days late, a late fee plus a penalty is due to the State.

The fee calculation is different depending on whether the licenses were issued for unspayed/unneutered dogs or for spayed/neutered dogs. Towns report the total number of licenses issued for each of the two types of dogs.

Dog license fees are used to fund the Agency’s animal control program. When the annual cost of that program is calculated, the General Fund is reimbursed from the Agency’s collection of dog license fees.

*Criteria:*

The Agency should maintain adequate records to verify that the correct amount of fees was received and deposited.

*Condition:*

The Agency maintains a list of the total tags given to each town. A handwritten record is kept of the payment received from each town, broken out by the number of dogs licensed by type, additional fees for the Animal Population Control Account, interest and penalties. However, the following deficiencies were noted.

No accountability report was prepared to reconcile the number of tags given to each town to the reported number of licenses sold by the towns, and, the number of dogs licensed by type to both cash receipts and the deposit to the Animal Population Control Account.

- Supporting documentation was not available for adjustments made to reported amounts receivable. The amount owed by one town was decreased by \$3,605 for a prior year adjustment. Agency policy is to refund overpayments, not credit them against a following year’s fees.

- There is no record of follow-up with towns that did not submit annual fees.
- Amounts attributable to the Animal Population Control Account were not always calculated accurately.
- For three of the twenty towns we tested, town reports, that should support payments received, were missing. As a result we were unable to verify the accuracy of the cash receipts.

*Effect:* The Agency may not have received all the fees to which it was entitled. Also, the distribution of fees between the Animal Population Control Account and the Animal Control Division may be inaccurate.

*Cause:* The cause was not determined.

*Recommendation:* Controls over dog license fees should be improved. Accountability reports should be prepared to reconcile the number of tags, licenses sold by towns, cash receipts, and the deposit to the Animal Population Control Account. Also, supporting documentation should be complete and unpaid fees should be pursued. (See Recommendation 3.)

*Agency Response:* “A spreadsheet will be developed showing the tags for each town and the payments made. Follow-up will occur on towns not sending in their payments. It is the responsibility of the Town Clerks to fill out the forms and justify the payments. Copies of the Town Report will be filed with the appropriate annual spreadsheet to verify funding.”

**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 for completing reporting forms.

*Condition:* The GAAP Reporting Form “State as Lessor” submitted by the Department for June 30, 2004 and 2005, contained twelve amounts reported inaccurately. Also, the total future minimum revenue from leases was reported as \$2,111,445 and \$3,464,444 as of June 30, 2004 and 2005, respectively. These amounts were overstated by \$86,000 and \$140,948.

- Effect:* Inaccurate information was provided to the Office of the State Comptroller for preparation of the State's GAAP basis financial statements.
- Cause:* The inaccuracies were caused by 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:* "As mentioned under Regional Market Leases, we will be working with DAS Small Business Unit to establish a spreadsheet for all payments as they relate to the leases for better accountability."

**Inventory – Merchandise for Sale:**

- Criteria:* The maintenance of accurate records of merchandise for sale inventory balances and disposition is an important internal control to prevent the loss or unauthorized use of that inventory.
- Condition:* In our prior audit we reported that the Agency's store inventory records listed approximately 497 items, of which 141 items that we reviewed had incorrect inventory balances. The Department's store closed during the 2003-2004 fiscal year. We were informed that the remaining inventory was moved to the Regional Market in Hartford. No physical inspection was made of items on hand at that time. We were informed that most of the remaining inventory was used for promotional purposes and expired food items were discarded. No records were available to support the disposition of store items. Records of a physical inspection performed by the Agency in March 2007 indicated that only a few items were still on hand.
- Effect:* Without accurate inventory records, the opportunity for loss or misappropriation of assets was increased and there is no way to determine whether any inventory was lost or misappropriated.
- Cause:* The Department did not institute procedures for maintaining the inventory records.
- Conclusion:* Because the store has closed we will not be presenting a recommendation in this report.
- Agency Response:* The Agency did not provide any response.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- All receipts should be deposited and accounted for in accordance with Section 4-32 of the General Statutes. This recommendation was implemented.
- 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. This recommendation was implemented.
- 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 tools needed by management. This recommendation is no longer applicable because the store closed. We do, however, report noncompliance in the “Condition of Records” section of this report.
- The Department should institute procedures to ensure that GAAP forms are prepared accurately and in accordance with instructions. This recommendation is repeated as Recommendation 4.
- The Department should institute procedures to ensure that all required reports are prepared. This recommendation was implemented.
- 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 was implemented.
- 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 regarding cancellation of uncollectible claims. We are not repeating our recommendation regarding uncollectible claims. Our recommendation dealing with leases is repeated as Recommendation 1.
- 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 was implemented.

- Recommendations combined and repeated in a modified form as Recommendation 5:

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.

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

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 seek assistance from the Department of Information Technology.

- The Agency should establish a formal system for tracking and summarizing complaints related to the Connecticut Grown Program. This recommendation was implemented.

*Current Audit Recommendations:*

- 1. In a timely manner, written lease agreements should be signed with each tenant occupying space at the Regional Market, lessees of Regional Market billboards and lessees of shellfish grounds.**

**Procedures should be established to ensure that required certificates of insurance, and surety bonds or letters of credit, are obtained.**

Comment:

Our review of the lease agreements for 26 tenants at the Regional Market disclosed that leases were incomplete; evidence of insurance, surety bonds or letters of credit was missing; and the amounts of surety bonds or letters of credit were lower than required.

There has been no lease agreement with the lessee of the Regional Market billboards since January 15, 1998.

Leases of shellfish grounds were renewed after the beginning of the new lease periods.

2. **Controls over license and registration fees should be improved. Where feasible, the initial recording of receipts should be performed by an employee independent of the processing of licenses and registrations. Accountability reports should be prepared to reconcile the number of licenses issued and registrations processed to actual deposits. Complete records of licenses and registrations should be maintained.**

Comment:

The following problems apply to all license and registration fees:

At each location where receipts were collected, the same employee is responsible for the initial recording of receipts and processing licenses or registrations.

There is no independent verification that the amounts received were deposited.

No accountability reports were prepared to reconcile what should have been received to what was received.

Complete records of licenses and registrations processed at the Central Office were not readily available.

3. **Controls over dog license fees should be improved. Accountability reports should be prepared to reconcile the number of tags, licenses sold by towns, cash receipts, and the deposit to the Animal Population Control Account. Also, supporting documentation should be complete and unpaid fees should be pursued.**

Comment:

Amounts attributable to the Animal Population Control Account were not always calculated accurately.

Supporting documentation was not available for adjustments made to reported amounts receivable, and for payments received from 23 towns.

There is no record of follow-up with towns that did not submit annual fees.

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

Comment:

The GAAP Reporting Forms “State as Lessor” contained twelve amounts reported inaccurately.

**5. The Department should improve its recordkeeping and reporting system for the Divisions of Milk Safety and Animal Health of the Bureau of Regulation and Inspection.**

Comment:

In a prior audit we reviewed whether the Department’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, and 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.

Although the systems appear to be adequate for protecting the health of the general public and the various farm animals tested, they do not enable management to easily review results of inspections or tests performed over time

**6. When leasing spaces, the Connecticut Marketing Authority (CMA) should consider the intent of the Regulations Sections 22-64, and the process of reviewing and scoring multiple applicants for the assignment of spaces, and the factors in Regulations Section 22-64-27.**

Comment:

As of June 8, 2007, the Regional Market’s 82 leased spaces were occupied by 15 tenants, with almost one-half of the spaces occupied by two tenants. Since February 16, 2005, three out of four assignments of leases were made to those two tenants. This was done with CMA approval, but without the CMA going through the scoring process or formally offering the space to all existing tenants or to outside businesses.

## 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, 2004 and 2005. 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, 2004 and 2005, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 controls 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, 2004 and 2005, 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: lack of complete lease agreements and documentation by the Connecticut Marketing Authority; lack of internal controls over cash receipts; and, lack of records for merchandise for sale.

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 by 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 controls over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal controls 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 the reportable conditions on leasing and cash receipts are material or significant weaknesses.

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 Departments of Agriculture and Administrative Services during this examination.

Elaine C. O'Reilly  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts