

STATE OF CONNECTICUT



***AUDITORS' REPORT
DEPARTMENT OF AGRICULTURE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007***

AUDITORS OF PUBLIC ACCOUNTS

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February 4, 2009

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007**

We have examined the financial records of the Department of Agriculture for the fiscal years ended June 30, 2006 and 2007. 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.

F. Philip Prelli served as Commissioner during the period under review.

Significant Legislation:

Public Act 05-228

Section 1 eliminates the date July 1, 1995, from subsection (a) of 22-26jj of the General Statutes. With the elimination of this date it now allows the Department to purchase agricultural lands “outright” on an on-going basis.

Section 2 establishes a matching grants program to municipalities to be administered by the Department of Agriculture to further agricultural viability.

Section 3 establishes a Farm Transition Program to be administered by the Department of Agriculture. Matching grants shall be made to farmers, agricultural not-for-profit organizations and agricultural cooperatives for diversification of existing farm operations, transitioning to value added agricultural production and sales, and developing farmers markets and other venues in which a majority of products sold are grown in the State.

Section 4 (a) requires the Department of Agriculture to establish and administer a Connecticut Farm Link Program to establish a database of farmers and agricultural land owners who intend to sell their farm operations or agricultural land. The database shall be maintained by the Department of Agriculture and shall be made available to the public on the Department’s web site for the purpose of linking those looking to farm but have no land base and those who are looking to sell their farm operations and farmlands.

Section 5 amends Section 7-34a of the General Statutes by adding subsection (e), which adds a \$30 additional fee for the recording of land records. After the town where the document is filed retains \$4, the town clerk shall remit the remaining \$26 to the State Treasurer for deposit into the “land protection, affordable housing and historic preservation account.”

Section 6 establishes the aforementioned account and monies are distributed every three months in the following manner: 25 percent to the Connecticut Commission on Culture and Tourism; 25 percent to the Connecticut Housing Finance Authority; 25 percent to the Department of Environmental Protection; and 25 percent to the Department of Agriculture. The 25 percent to the Department of Agriculture is to be used as follows: \$500,000 for the “Agriculture Viability Grant Program” as established in Section 2; \$500,000 for the “Farm Transaction Grant Program” as established in Section 3; \$100,000 to encourage the sale of “Connecticut Grown” foods to schools, restaurants, retailers and other institutions and businesses in the State; \$75,000 for the “Connecticut Farm Link Program” as established in Section 4; and the remainder is to go to the Farmland Preservation Program.

Public Act 05-03 of the 2005 June Special Session

Section 113 changes the effective date of Public Act 05-228 from July 1, 2005, to October 1, 2005.

Public Act 05-251

Section 60, subsection (c), effective July 1, 2005, provides that personnel, payroll, affirmative action, and business office functions shall be merged and consolidated within the Department of Administrative Services.

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>2005</u>	<u>2006</u>	<u>2007</u>
Revenue and Other Receipts:			
Refunds of Expenditures:			
Prior year	\$1,312,782	\$ 11,119	\$ 4,527
Analysis of feeds and fertilizers	456,527	380,509	480,132
Oyster grounds rents	786,422	828,134	906,859
Licenses	251,322	218,436	277,918
Miscellaneous receipts	<u>48,937</u>	<u>55,349</u>	<u>66,450</u>
 Total General Fund Receipts	 <u>\$2,855,990</u>	 <u>\$1,493,547</u>	 <u>\$1,735,886</u>

The primary reason for the decrease in General Fund receipts during the 2005-2006 fiscal year can be attributed to the failure by the Department to reimburse the General Fund for expenses incurred by the Animal Control Unit. 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. Dog license receipts are received by the Department of Agriculture and deposited into the Funds Awaiting Distribution Fund. At the end of each fiscal year, a transfer is to be made reimbursing the General Fund for expenses of the Department's Animal Control Unit. Refunds of prior year expenditures recorded in the 2004-2005 fiscal year were for expenditures incurred in the 2002-2003 and 2003-2004 fiscal years. Reimbursements of expenditures incurred in the 2004-2005 and 2005-2006 fiscal years have not been made by the Department. Dog license receipts received by the Department of Agriculture and credited to the Funds Awaiting Distribution Fund were \$642,244, \$581,991 and \$618,628 for the fiscal years ended June 30, 2005, 2006 and 2007, respectively.

Also contributing to the decrease noted in the 2005-2006 fiscal year were decreases in the analysis of feed and fertilizers and licenses categories. These decreases in receipts were partially offset by increases noted in receipts for oyster grounds rents and miscellaneous receipts.

Although reimbursement of prior year expenditures for the Animal Control Unit were not made in the 2006-2007 fiscal year, increases in receipts were noted in all other revenue classifications.

General Fund Expenditures:

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Personal services	\$3,354,981	\$3,364,717	\$3,569,277
Purchased services, commodities	882,489	858,616	1,043,807
All other	<u>255,836</u>	<u>188,340</u>	<u>229,864</u>
Total General Fund Expenditures	<u>\$4,493,306</u>	<u>\$4,411,673</u>	<u>\$4,842,948</u>

Special Revenue Funds:

During the period under review, the Department utilized four special revenue funds established to account for expenditures of revenues that have been restricted to specific programs. A summary of revenues and expenditures for all special revenue funds follows.

	<u>Revenue</u>		<u>Expenditures</u>	
	<u>2005-2006</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2006-2007</u>
Fund:				
Regional Market Operating	\$ 984,661	\$1,017,828	\$ 825,319	\$ 760,411
Capital Equipment Purchase			21,824	10,987
Grants to Local Governments And Others			521,012	626,232
Federal and Other Restricted Accounts	<u>5,885,365</u>	<u>7,551,670</u>	<u>2,003,581</u>	<u>2,902,775</u>
Total Special Revenue Funds	<u>\$6,870,026</u>	<u>\$8,569,498</u>	<u>\$3,371,736</u>	<u>\$4,300,405</u>

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 \$984,661 and \$1,017,828 during the fiscal years ended June 30, 2006 and 2007, respectively. Fund receipts for the fiscal year ended June 30, 2005, were \$986,252. Fund expenditures totaled \$825,319 and \$760,411 for the fiscal years ended June 30, 2006 and 2007, respectively. During the fiscal year ended June 30, 2005 Fund expenditures were \$850,350. 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.

The State Comptroller's records indicate that Fund assets totaled \$991,920, as of June 30, 2007.

Federal and Other Restricted Accounts Fund:

This Fund was established with the passage of Public Act 04-2 of the May Special Session of the General Assembly. The purpose of the Fund is to account for certain Federal and other revenue that are restricted from general use and were previously accounted for in the General Fund. Fund receipts totaled \$5,885,365 and \$7,551,670 during the fiscal years ended June 30, 2006 and 2007, respectively. During the 2004-2005 fiscal year, Fund receipts totaled \$1,852,501. The primary reason for the increase in receipts of \$4,032,864 and \$1,666,305 during the fiscal years ended June 30, 2006 and 2007, respectively, can be attributed to the receipts generated with the implementation of the previously mentioned Public Act 05-228.

Fund expenditures totaled \$2,003,581 and \$2,902,775 during the fiscal years ended June 30, 2006 and 2007, respectively, as compared with the 2004-2005 total of \$1,640,019. Expenditures were mainly for grants awarded for programs established by Public Act 05-228, 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:

The Grants to Local Governments and Others is a fund that is used by various State Departments to account for bond authorizations for grants to local governments, organizations, and individuals. Expenditures from this Fund totaled \$521,012 and \$626,232 during the fiscal years ended June 30, 2006 and 2007, 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 \$1,884,168 and \$1,847,341 during the 2005-2006 and 2006-2007 fiscal years, respectively. During the 2004-2005 fiscal year such expenditures were \$955,245. The State Comptroller's records show a deficit balance of \$432,371 for this Fund on June 30, 2007.

CONDITION OF RECORDS

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

Late Deposits:

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 86 transactions totaling \$568,796 revealed that 31 receipts totaling \$139,920 were accounted for and deposited between one and 67 days late. Because 20 of the 86 transactions were not date stamped or recorded when received, we could not verify the timeliness of those deposits.

In addition, we could not verify that five of the 86 sampled receipts were ever deposited. Four milk dealer's license receipts totaling \$135, and received between November 9, 2005 and August 8, 2006, could not be traced to the Bureau of Regulation and Inspection's FoxPro System or transmittal slip and/or to deposit. One overnight parking fee collected at the Regional Market could not be traced to the Regional Market's Quickbook system or to deposit. We therefore, could not confirm that these moneys were deposited in the State's account.

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

Cause: It appears that the volume of licenses to be processed can be extensive during certain times of the year and the Department did not request nor receive a waiver for an extension of the 24-hour requirement from the Office of the Treasurer during these high volume times.

Recommendation: It is recommended that all receipts be deposited and accounted for in accordance with Section 4-32 of the General Statutes. (See Recommendation 1.)

Agency Response: "Without knowing the detail of the transactions, it is difficult to respond as to why the deposits were not deposited within the 24 hour time frame. It is the DAS Business Office policy to deposit all checks that we receive by noon time on the same day.

We are not aware of policy of posting the transactions to Core-CT within the 24 hour time frame. We are trying to obtain a copy of the memorandum and will abide by this policy in the future. We have in the past and will continue in the future to ask permission from the Treasurer's Office during the busy time to extend the deposit time.”

Auditors' Concluding

Comment: The deposit reporting timeframes are outlined in an Office of the State Treasurer memorandum to all State agencies dated January 6, 2006, from Lawrence A. Wilson, Assistant Treasurer – Cash Management.

Revenue - Late Postings to the Core-CT System:

Background: The Office of the State Treasurer clarified the deposit reporting timeframes to the State Agencies in a memorandum dated January 6, 2006. This memorandum details that the deposit information obtained from the depository banks is passed back to the agencies on the day after the deposits are recorded at the bank. The agencies then are responsible for confirming the bank data and adding the appropriate accounting information. These confirmation and journalizing steps should be completed by the end of the day in which the deposit information is received by the agencies through the Core-CT system. This date is reflected on the Core-CT system as the “posted date”.

The Department of Administrative Services Business Unit has been posting the deposits for the Department of Agriculture on the State's Core-CT Accounting System since the consolidation of the business functions, as specified in Section 60(c) of Public Act 05-251, effective July 1, 2005.

Criteria: The Office of the State Treasurer directs that State agencies complete confirmation of bank data and journalizing steps by the end of the day so that the deposit information is entered into Core-CT. Therefore, the posted date for the deposit should be no later that one day after the deposit is recorded by the bank.

Condition: Our review of 69 transactions that were dated after January 6, 2006, revealed that 43 receipts were posted to Core-CT between two and 16 days after the deposit was recorded by the bank.

Effect: The delay in posting to Core-CT may cause difficulty for the Office of the State Treasurer in reconciling bank accounts in a timely manner.

Cause: We were informed that the DAS Business Unit was not aware that this information was to be posted to Core-CT within 24-hours.

Recommendation: It is recommended that, in order to accurately reflect the revenue account balances, all receipts should be posted in Core-CT as directed by the State Treasurer's Office. (See Recommendation 2.)

Agency Response: "We are not aware of policy of posting the transactions to Core-CT within the 24 hour time frame. We are trying to obtain a copy of the memorandum and will abide by this policy in the future."

Auditors' Concluding

Comments: See Auditors' Concluding Comments for Recommendation 1.

Revenue –Lease Agreements:

Criteria: Section 22-64 of the General Statutes states that the Connecticut Marketing Authority (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 CMA 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 requires that written contracts contain complete and consistent contract terms.

Condition: Our review of the current lease agreements for eighteen tenants at the Regional Market disclosed the following.

- Thirteen of the 18 tenants were missing one or more of the lease requirements, including a fully executed lease, certificate of bond, certificate of insurance, certificate of gift and campaign contributions, non-discrimination certificate, exhibit A, exhibit B and/or the authorization to execute contracts.
- The CMA has not had a lease agreement for its billboards since January 15, 1998.

Effect: A lack of fully executed lease agreements can result in uncertainty for the parties involved.

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: The CMA has not enforced the requirement that lease agreements and all supporting documentation be on hand for Regional Market tenants.

Recommendation: The Connecticut Marketing Authority should have on hand fully executed lease agreements and all required documentation for tenants occupying space at the Regional Market and lessees of Regional Market billboards. (See Recommendation 3.)

Agency Response: “The new 3 year lease agreement was sent to the Attorney General’s Office in November of 2007 for review and correction. After many months of changes within the lease we received the final draft in April with all the required documentations and special attachments. A letter also accompanied the lease stating the need for the bond and insurance in order to complete the lease. The previous 3 year lease was, per my knowledge, in negotiation between the Tenant Association and CMA. That could be one of the reasons why all of the leases were not in place. The new lease for 2008 through 2011 will be accompanied by the bond and insurance.

In response to the billboard lease: The CMA cancelled the RFP in the billboards because of improper actions that were taken for the bidding of the RFP. The CMA then asked the Attorney General’s Office if they could do a month to month with the existing lease which was in agreement with the lessee. The response from the Attorney General’s Office was as long as they were current with their previous lease agreement month to month the board can continue with that. The board was ready to issue another RFP with the billboard until the Governor issued that there will be no new or extended leases for billboards.”

Revenue - Improper Cancellation of Uncollectible Amount:

Criteria: 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 office 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:* The Connecticut Marketing Authority relieved one tenant of its outstanding rental obligation in the amount of \$21,585 without obtaining the proper approvals from the Office of Policy and Management or the Governor.
- Effect:* The Department was non-compliant with Section 3-7 of the General Statutes.
- Cause:* We were informed that the Department believed that uncollectible amounts could be discharged with the CMA Board of Director's approval.
- Recommendation:* The Connecticut Marketing Authority should comply with Section 3-7 of the General Statutes and obtain the proper approvals for cancellation of all uncollectible amounts. (See Recommendation 4.)
- Agency Response:* "The Connecticut Marketing Authority (CMA) turned over to the Attorney General the bankruptcy of a tenant at the Regional Market. The CMA did collect the bond that was on file and assigned to the CMA. The Attorney General then had to work with the Federal Government to try and obtain any remaining funds and assets. There were no other funds or assets to be obtained therefore the CMA only recovered the bond. The Attorney General was representing the Connecticut Marketing Authority and the Department of Agriculture in all the proceedings of the bankruptcy and therefore would have reported to the Office of Policy and Management (OPM)."

Dog Fund:

- Criteria:* Section 22-347 of the General Statutes requires that the town treasurer or other officer shall, on the ensuing September first, send fifty percent or forty percent (if the town conducted a survey of unlicensed dogs) as the case may be, of all license fees in such account to the Commissioner, including any penalty fees collected pursuant to Section 22-338 of the General Statutes. All payments to the Commissioner shall be accompanied by an account thereof in a form prescribed by the Commissioner and should include any incurred late fees.
- Subsection (b) of Section 22-328 directs that the expenses incurred in the administration of Chapter 435 and Chapters 436 and 436a shall be paid from dog funds in the custody of the State Treasurer which have been received from the several municipalities and from the Commissioner for the same fiscal year as the expenses are incurred.

Condition: We noted that Town Dog Fund Reports for 17 towns had not been filed for at least one year under review with two towns not filing for more than one year.

We noted large variations in the number of licenses sold and reported on the Town Dog Fund Reports from one year to the next for 13 different towns. Town Dog Fund Reports varied more than 25 percent from one year to the next in filed reports.

Reconciliations of the number of dog tags sold and payments for licenses sold were not done. We noted large variances between the two.

Reimbursements to the State General Fund for expenses of the Animal Control Unit were not made in a timely manner. Expenditures incurred in the 2005 and 2006 fiscal years were not reimbursed to the State General Fund until July 22, 2008. As of September 5, 2008, reimbursement for the expenses incurred in the 2007 and 2008 fiscal years still have not been made.

Effect: The State may not be receiving all dog license revenue that it is entitled to. The State General Fund is charged for expenses that should be reimbursed from the Dog Fund.

Cause: With the elimination of the Department of Agriculture's Business Unit, many of the functions previously performed by them were assumed by the Department of Administrative Services Business Unit. Employees of that unit were unaware of the unique nature of the Dog Fund accounting requirements.

Recommendation: It is recommended that the Department of Agriculture and/or the Department of Administrative Services exercise greater control over the Dog Fund. Reimbursements to the State General Fund for expenses of the Animal Control Unit should be made in a timely manner. In addition, questions should be raised as to the variances in receipts from towns from one year to the next and reconciliations should be prepared between dog tags sold and receipts from the sale of dog licenses. (See Recommendation 5.)

Agency Response: "DAS and DAG are working together to clean up the Dog Fund accounts. DAS wrote procedures that are being reviewed by the DAG which clearly defines the roles of both agencies. We are contacting the towns that have not submitted reports and have outstanding receivables. We are also working with DAG to set the penalties and interest on these accounts. These amounts are determined by DAG."

Payroll and Personnel:

Payroll Transactions:

Criteria: Good business practice requires that employees be paid only for work performed and documented. Supporting documentation for any adjustments should be kept on file.

Condition: We noted that an employee was paid for hours that did not agree with the supporting timesheet. Documentation supporting adjustments made could not be located.

Effect: Controls are weakened when employees are paid without proper authorization and/or supporting documentation.

Cause: The cause could not be determined.

Recommendation: Employees should be paid for work performed and documented on a timesheet. All adjustments should be approved, documented and kept on file. (See Recommendation 6.)

Agency Response: “The incumbent who processed the payroll during that period is no longer employed by the Department of Administrative Services; therefore, we were unable to verify with her. Given the lack of details and documentation, it is difficult to respond to what happened and why. The Human Resources and Payroll sections of the DAS Small Agency Resource Team will ensure proper approvals and supporting documentation are on file to ensure a situation like this does not occur again.”

Compensatory Time:

Criteria: The Department of Administrative Services’ Manager’s Guide and Management Personnel Policy 06-02 states that compensatory time may be granted to managers if the agency head or his/her designee has given prior written authorization for the extra work and that the extra work is significant in terms of total hours and duration.

Condition: Our review of 31 employees earning compensatory time disclosed that four managers were credited with compensatory time without prior written authorization from the Agency head or his/her designee. In addition, these managers were granted compensatory time for insignificant periods of time (two hours or less). We also noted that exempt employees were granted numerous hours of compensatory time in increments of less than two hours on a regular basis.

- Effect:* Employees may have been inappropriately credited with compensatory time.
- Cause:* The Department did not follow procedures regarding the issuance of compensatory time.
- Recommendation:* The Department should only grant compensatory time when properly authorized and only for a significant number of hours. (See Recommendation 7.)
- Agency Response:* “The DAS Small Agency Resource Team issued a policy in February 2007 regarding approvals. The State’s policy, Management Personnel Policy 06-02, will be reissued.”

Inventory and Property Control:

Testing and Physical Inspection of Inventory:

- Criteria:* The State of Connecticut’s Property Control Manual prescribes procedures for the maintenance of equipment inventory records. It also states that changes of property, as recorded in the Property System, must be reconciled annually with the respective official records maintained by the Comptroller. In addition, the manual mandates that a physical inventory be performed at the end of each fiscal year.
- Condition:* Our review of the Department’s inventory control systems revealed the following deficiencies:
- Physical inspection of 25 items on the Agency’s inventory listing disclosed that four items totaling \$9,351 could not be located.
 - A review of ten items randomly selected at the Central Office, Aquaculture Division and the Regional Market revealed that two items could not be found on the Agency’s inventory listing. The cost of these items could not be determined. In addition, one item costing \$17,312 was listed twice.
 - It was noted upon a review of the complete inventory listing of 504 assets that there were 40 duplicate postings as follows: 13 assets showed the same tag number, amount and description; five showed duplicate tag numbers for different assets; and 22 items showed the same tag number and description, but different amounts. Sixteen of the 22 involved the purchase of personal computers by the Office of Homeland Security on behalf of the Department of Agriculture. The value of these assets had to be adjusted because they were initially listed incorrectly.

- Effect:* Internal controls over Agency property are weakened. Therefore, property may be prone to theft.
- Cause:* The Department of Agriculture and/or the Department of Administrative Services did not follow guidelines as set forth in the State of Connecticut's Property Control Manual for control and maintenance of assets.
- Recommendation:* The Department of Agriculture's inventory should be maintained and reconciled in accordance with the State of Connecticut's Property Control Manual. Controls over inventory records and physical location of property should be strengthened. (See Recommendation 8.)
- Agency's Response:* "DAS is in the process of correcting all duplicates, and locating all missing items. The DAS/Property Management Unit has been involved in a process of review and improvement which will eliminate these types of oversights in the future. The DAS/Property Management Unit is understaffed for the amount of agencies that they service but have made many improvements since the process review. The Department of Agriculture is cooperating with the Department of Administrative Services to rectify this situation."

Property Control and Reporting:

- Criteria:* Section 4-36 of the Connecticut General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller and an annual report of all property in the custody of the Department having a value of \$1,000 or more must be reported annually.
- Condition:* Our review of the Department's CO-59 Fixed Asset/Property Inventory Report prepared by the Department of Administrative Services (DAS) Business Unit did not include the ending values of the Connecticut Regional Market's inventory when preparing the CO-59 for the Department of Agriculture. Previously both the Department of Agriculture and the Regional Market submitted separate CO-59's. However, when the business activity of the Department of Agriculture was assumed by the Department of Administrative Services, one CO-59 was prepared for both entities and the DAS failed to include some \$4,927,656 in Regional Market assets.
- Effect:* The CO-59 reports could not be relied upon for accuracy. The figures submitted to the State Comptroller for inclusion on financial reports were understated by the \$4,927,656.
- Cause:* The DAS Business Unit did not realize that previously separate CO-59's were prepared and, therefore, they were unaware of the omission of the

Regional Market's June 30, 2005, ending balances. This amount should have been included in the June 30, 2006, beginning inventory balance shown on the CO-59 for the Department of Agriculture.

Recommendation: The Department of Administrative Services Business Unit should include all pertinent information when preparing the CO-59 in accordance with State Comptroller's directives and/or instructions. (See Recommendation 9.)

Agency's Response: "The CO-59 for the 2007-2008 fiscal year has corrected the understatement that occurred by the omission of the ending balances for the Regional Market. All CO-59's will be prepared in accordance with the State Comptroller's directives."

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 Department of Administrative Services prepared the GAAP Reporting Form Number 6 "State as Lessor" for the Department of Agriculture for the fiscal year ended June 30, 2007. We noted that amounts reported did not have supporting documentation on hand and that reported totals were incorrect and the same as those reported for the fiscal year ended June 30, 2006.

Effect: The State Comptroller's Office corrected the incorrect totals reported; however, if incorrect amounts are reported it could result in inaccurate and/or incomplete information being reported in the State's Comprehensive Annual Financial Report.

Cause: We were informed that the form was completed based on the prior year's reported amounts and was not based upon any supporting documentation completed and/or supplied, which led to the inaccurate totals being reported.

Recommendation: The Department should maintain and provide documentation to support the completed GAAP reporting forms and greater care should be taken in completing the forms. (See Recommendation 10.)

Agency's Response: "The GAAP form will be completed by the Director of the Regional Market where all of the documentation for the leases is contained. The Market has also developed new procedures for reporting lease payments

and ensuring bonds were kept in force by tenants. This was pointed out and responded to in the last audit completed only last year.”

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

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 should:

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

Condition: We again noted that the Divisions of Milk Safety and Animal Health still 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 the 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 for 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 11.)

Agency Response: “For the past 5 years the Department has attempted to replace our now broken licensing system with a new one that would have better controls and be easier to monitor. It would also supply management reports to assist in planning. Additionally, since we are still a paper based agency, this would be an opportunity to move to electronic record keeping and reporting. It should be a trivial matter to link licensing, the records of inspection and enforcement, posting sample data and provide field staff with timely information. To date nothing has happened. Budget, time and reliance on other agencies who do not have a vested interest in our mission all lead to a situation where it is very difficult to accomplish the desired upgrades.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. As insufficient action has been taken on this recommendation, it is being repeated in part as Recommendation 3.
- 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. As insufficient action has been taken on the recommendation, it is being repeated in essence as Recommendation 1.
- 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. As insufficient action has been taken on this recommendation, it is being repeated in essence as Recommendation 5.
- The Department should institute procedures to ensure that GAAP forms are prepared accurately and in accordance with instructions. This recommendation is being repeated as Recommendation 10.
- 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. This recommendation is being repeated as Recommendation 11.
- When leasing spaces, the Connecticut Marketing Authority should consider the intent of the Regulations Section 22-64, and the process of reviewing and scoring multiple applicants for the assignment of spaces, and the factors in Regulations Section 33-64-27. This recommendation has been implemented.

Current Audit Recommendations:

- 1. It is recommended that all receipts be deposited and accounted for in accordance with Section 4-32 of the General Statutes.**

Comment:

Our review of 86 transactions revealed that 31 were accounted for and deposited between one and 67 days late. In addition, we could not verify that five of the 85 receipts were ever deposited.

- 2. It is recommended that, in order to accurately reflect the revenue account balances, all receipts should be posted in Core-CT as directed by the State Treasurer's Office.**

Comment:

Our review of 69 transactions revealed that 43 receipts were posted to Core-CT between two and 16 days after the deposit was recorded by the bank.

- 3. The Connecticut Marketing Authority should have on hand fully executed lease agreements and all required documentation for tenants occupying space at the Regional Market and lessees of Regional Market billboards.**

Comment:

Our review disclosed that 13 of the 18 tenants at the Regional Market were missing one or more of the lease requirements. We also noted that the Connecticut Marketing Authority has not had a lease agreement for its billboards since January 15, 1998.

- 4. The Connecticut Marketing Authority should comply with Section 3-7 of the General Statutes and obtain the proper approvals for cancellation of all uncollectible amounts.**

Comment:

The Authority relieved one tenant of its outstanding rental obligation in the amount of \$21,585 without obtaining the proper approvals.

- 5. It is recommended that the Department of Agriculture and/or the Department of Administrative Services exercise greater control over the Dog Fund. Reimbursements to the State General Fund for expenses of the Animal Control Unit should be made in a timely manner. In addition, questions should be raised as to the variances in receipts from towns from one year to the next and reconciliations should be prepared between dog tags sold and receipts from the sale of dog licenses.**

Comment:

We noted that all towns were not filing Town Dog Fund Reports in a timely manner, variations in the number of dog tags sold and those reported, and the Department's failure to reimburse the State General Fund for expenses of the Animal Control Unit.

- 6. Employees should be paid for work performed and documented on a timesheet. All adjustments should be approved, documented and kept on file.**

Comment:

We noted that an employee was paid for hours that did not agree with the supporting timesheet. Documentation to support adjustments made could not be located.

- 7. The Department should only grant compensatory time when properly authorized and only for a significant number of hours.**

Comment:

Our review disclosed that some managers were granted compensatory time without prior written authorization. We also noted that both managers and exempt employees were granted compensatory time for insignificant periods of time (two hours or less).

- 8. The Department of Agriculture's inventory should be maintained and reconciled in accordance with the State of Connecticut's Property Control Manual. Controls over inventory records and physical location of property should be strengthened.**

Comment:

Our review disclosed that not all inventory items could be located, not all equipment was on the Agency's inventory records and this same inventory had 40 duplicate postings.

- 9. The Department of Administrative Services' Business Unit should include all pertinent information when preparing the CO-59 in accordance with State Comptroller's directives and/or instructions.**

Comment:

By failing to include the Connecticut Regional Market inventory on the CO-59 submitted, the inventory reported was understated by \$4,927,656.

- 10. The Department should maintain and provide documentation to support the completed GAAP reporting forms and greater care should be taken in completing the forms.**

Comment:

The GAAP Reporting Form "State as Lessor," submitted by the Department for June 30, 2007, contained unsupported amounts and inaccurate totals.

- 11. 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:

The Divisions of Milk Safety and Animal Health still do not have an effective recordkeeping and reporting system.

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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the (State Agency) for the fiscal years ended June 30, 2006 and 2007, 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Department of Agriculture's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control

deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation numbers 1 – Late Deposits, 3 – Revenue – Lease Agreements, 4 – Revenue – Improper Cancellation of Uncollectible Amount, 5 – Dog Fund, 6 Payment only for Work Performed, 7 – Granting of Compensatory Time, 8 – Testing and Physical Inspection of Inventory, 9 – Property Control and Reporting and 11 – Improve record keeping for the Bureau of Regulation and Inspection Divisions of Milk Safety and Animal Health.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Agriculture complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report as the following items: Recommendations 2 – Postings to Core-CT and 10 - GAAP Reporting.

The Department of Agriculture's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Department of Agriculture's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of Agency management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Department of Agriculture during the course of our examination.

Edward C. Wilmot
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts