

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF AGRICULTURE
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS' REPORT DEPARTMENT OF AGRICULTURE FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have examined the financial records of the Department of Agriculture (Department) for the fiscal years ended June 30, 2010 and 2011. 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 Department also leases submerged land to the aquaculture industry for shellfish culture.

The Department's personnel, payroll and affirmative action functions were transferred to the Department of Administrative Services' (DAS) Small Agency Resource Team during the fiscal year ended June 30, 2006. The Department's business office functions were transferred to DAS' Finance and Budget Unit during the same year. F. Philip Prelli served as Commissioner from May 2005 until January 2011. Commissioner Prelli was succeeded by Steven K. Reviczky in January of 2011.

Significant Legislation:

Notable legislative changes are presented below:

Public Act 09-229 creates a grant program for milk producers. It establishes an agricultural sustainability account and a formula for awarding grants and provides funding until July 1, 2011.

Public Act 09-3 of the June Special Session essentially doubled the Department's fees. The act allocates funds from the Community Investment Account to several organizations and requires the Department to make required distributions to specified agricultural programs quarterly instead of annually.

Public Act 09-7 of the September Special Session provides details on the administration of grants to milk producers, including allowing the commissioner to use up to \$100,000 of the appropriated funds for grant administration. The act also requires the Department to distribute \$125,000 from the community investment account to the General Fund in the fiscal year ended June 30, 2010.

Public Act 10-78, effective October 1, 2010, allows the Department of Agriculture commissioner to designate shellfish areas that are necessary for conducting educational activities to regional agricultural science and technology education centers (RASTECs). Existing law allows the commissioner to lease the beds for shellfish planting and cultivating to the highest responsible bidder, at a minimum of \$4 per acre, for 10-year terms. The act exempts RASTECS from the acreage fee and 10-year term.

Public Act 10-103, (1) allows the preparation and sale of acidified foods on residential farms under certain conditions; (2) makes the agriculture commissioner responsible for inspecting certain poultry producers and processors and designates processors meeting certain criteria as approved food sources for certain consumers and entities; (3) specifies that money collected by the Connecticut Milk Promotion Board is not considered state funds and that the board is within the Department of Agriculture for administrative purposes only; and (4) expands the definition of a farmer's market.

Public Act 11-1 of the October Special Session adds agricultural restoration purposes to the uses allowed under an existing Department of Agriculture program that encourages using state-owned vacant public land for gardening or agricultural purposes. The act allows the agriculture commissioner to reimburse any farmer for part of the cost of developing a farm resource management plan to restore farmland if (1) the commissioner approves the plan and (2) the reimbursement is no more than the lesser of \$20,000 or 50 percent of the plan's cost. The act authorizes up to \$5 million in general obligation bonds to the Department of Agriculture for funding agricultural restoration and farmer reimbursements described above.

Public Act 11-194, effective October 1, 2011, requires state, regional, and municipal animal control officers and Department of Children and Families (DCF) employees to report to the Commissioner of Agriculture when they reasonably suspect that an animal is being treated cruelly, harmed or neglected. The Commissioner of Agriculture must forward the information received from the animal control officers to the DCF commissioner in a monthly report.

Public Act 11-187, effective October 1, 2011, makes several changes affecting animal importers. The act (1) requires animal importers to register with the Commissioner of Agriculture; (2) have imported animals examined by a state-licensed veterinarian; and (3) notify the Department of Agriculture and local zoning officials before offering the animals for sale, adoption or transfer. The act establishes fines for violations.

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>2009</u>	<u>2010</u>	<u>2011</u>
Refunds of Expenditures	\$1,892,027	\$ 7,394	\$ 715,015
Analysis of Feeds and Fertilizers	580,993	1,052,804	1,188,003
Oyster Grounds Rents	650,622	896,383	915,107
Licenses	337,251	419,702	546,484
Miscellaneous Receipts	<u>100,938</u>	<u>91,107</u>	<u>100,296</u>
Total General Fund Receipts	<u>\$3,561,831</u>	<u>\$2,467,390</u>	<u>\$3,464,905</u>

Refunds of Expenditures decreased by \$1,884,633 and increased by \$707,621 during the fiscal years ended June 30, 2010 and 2011, respectively. The reason for this difference is due to the transfer of funds from the Funds Awaiting Distribution Fund to the General Fund. Section 22-347 of the General Statutes requires town treasurers or other fiscal officers to remit a portion of dog license fees collected by the municipalities to the Department. Dog license fees received by the Department are deposited into the Funds Awaiting Distribution Fund. Receipts received

by the Department and credited to the Funds Awaiting Distribution Fund were \$669,667, \$689,007 and \$709,987 for the fiscal years ended June 30, 2009, 2010 and 2011, respectively.

Section 22-328 of the General Statutes directs the Commissioner of Agriculture to use the fees deposited into the Funds Awaiting Distribution Fund to reimburse the General Fund for annual expenses incurred by the Department's Animal Control Unit. Refunds of Expenditures reimbursed in the 2008-2009 fiscal year were for expenditures incurred in the 2004-2005, 2005-2006 and 2006-2007 fiscal years. Public Act 09-111 authorized the transfer of \$1,414,874 from the Funds Awaiting Distribution Fund to the General Fund. No transfers occurred during the fiscal year ended June 30, 2010, and refunds of expenditures reimbursed in the 2010-2011 fiscal year were for expenditures incurred in the 2007-2008 fiscal year. This matter is discussed in greater detail in the Condition of Records section of this report.

Analysis of Feeds and Fertilizers increased by \$471,811 during the fiscal year ended June 30, 2010. This increase was due to fee increases in accordance with Public Act 09-229 and agency regulations.

Oyster Ground Rents increased \$245,761 during the fiscal year ended June 30, 2010. The increase was mainly attributable to rent deferrals authorized for one lessee during the fiscal year ended June 30, 2009.

Licenses increased by \$82,451 and \$126,782 during the fiscal years ended June 30, 2010 and 2011. This was mainly due to the passage of Public Act 09-3 of the June Special Session, which doubled many of the Department's fees effective October 1, 2009.

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>2009</u>	<u>2010</u>	<u>2011</u>
Personal Services	\$3,864,025	\$3,378,545	\$3,543,547
Employee Expenses, Allowances, Fees	20,299	15,925	20,259
Contractual Charges	706,428	495,880	491,043
Commodities	146,745	177,054	195,116
Grants and Client Subsidies	<u>464,431</u>	<u>9,860,251</u>	<u>433,218</u>
Total General Fund Expenditures	<u>\$5,201,928</u>	<u>\$13,927,655</u>	<u>\$4,683,183</u>

Expenditures increased \$8,725,727 in the fiscal year ended June 30, 2010 compared to the earlier year. The increase was primarily attributable to grants made to dairy farmers during the year. Public Act 09-07 of the September Special Session authorized using \$10,000,000 appropriated to the Department for dairy farmers under PA 09-03 of the June Special Session to pay for grants to milk producers to offset low milk prices. This appropriation was reduced by \$500,000 due to the Governor's rescissions. The commissioner may use up to \$100,000 of such

appropriated amount for costs directly related to the administration of such grants. Grant payments totaling \$9,382,276 were made to dairy farmers during the year.

Contractual Charges decreased by \$210,548 during the fiscal year ended June 30, 2010, primarily due to budgetary constraints.

Special Revenue Funds:

Department operations were administered through four special revenue funds during the audited period. A summary of receipts and expenditures follows.

Federal and Other Restricted Accounts Fund - Receipts:

Federal and Other Restricted Accounts Fund receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Agriculture Sustainability - Dairy	\$ 0	\$6,112,058	\$5,011,354
Farmland Preservation	2,599,943	(1,070,780)	0
Agriculture Viability	500,000	539,487	500,000
Farm Transition	500,000	539,487	500,000
Animal Population Control	750,113	738,000	765,163
All Other Receipts	<u>312,007</u>	<u>544,398</u>	<u>476,794</u>
Total – Non-Federal	4,662,063	7,402,650	7,253,311
Federal Programs	<u>1,055,449</u>	<u>1,465,595</u>	<u>1,022,199</u>
Total Receipts	<u>\$5,717,512</u>	<u>\$8,868,245</u>	<u>\$8,275,510</u>

Receipts increased by \$3,150,733 during the fiscal year ended June 30, 2010. Several of the Department's programs are funded through the Community Investment Account. Fees collected by town clerks for the recording of land records are remitted to the State Treasurer for deposit into the account. Monies from the account are periodically distributed to various state agencies based on designated percentages. Section 4-66aa of the General Statutes, as amended by Public Act 09-229, as amended by Public Act 09-3 of the June Special Session, increased the document recording fee and increased the Department's share of the funds from twenty-five percent to forty percent. The act also establishes an Agricultural Sustainability Account and requires the additional document recording fee revenues to be placed in it. The commissioner shall use the account for grants to Connecticut milk producers.

Farmland Preservation grants also decreased as a result of Public Act 09-229. Under prior law, any remaining funds from the Community Investment Account, after supporting certain Department of Agriculture programs, was to be used to support the Farmland Preservation Program. This act requires that such funds, instead, go into the Agricultural Sustainability

Account. The negative revenue figure for fiscal year 2010 was due to a journal entry correction related to the passage of this act in order to redistribute the Community Investment Act funds for the last quarter of 2009.

Federal and Other Restricted Accounts 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>2009</u>	<u>2010</u>	<u>2011</u>
Agricultural Sustainability - Dairy	\$ 0	\$4,035,305	\$4,907,561
Farmland Preservation	2,101,138	2,258,910	336,112
Agriculture Viability	513,043	526,838	456,532
Farm Transition	475,524	391,021	651,119
Animal Population Control	601,612	491,434	679,000
All Other Expenditures	<u>136,759</u>	<u>220,392</u>	<u>389,624</u>
Total – Non-Federal	3,828,076	7,923,900	7,419,948
Federal Programs	<u>1,316,917</u>	<u>1,338,742</u>	<u>1,028,086</u>
Total Expenditures	<u>\$5,144,993</u>	<u>\$9,262,642</u>	<u>\$8,448,034</u>

Expenditures increased by \$4,117,649 during the fiscal year ended June 30, 2010. The increase was primarily attributable to the creation of a grant program for milk producers, in accordance with Public Act 09-229.

Expenditures for the Farmland Preservation Program decreased by \$1,922,798 during the fiscal year ended June 30, 2011. This decrease was due to the passage of Public Act 09-229, as amended by Public Act 09-3 of the June Special Session, which significantly decreased the funds available for the program that are financed through the Community Investment Account, as explained above under Receipts.

Regional Market Operation Fund:

The Regional Market Operation Fund 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 \$946,256 and \$940,841 during the fiscal years ended June 30, 2010 and 2011, respectively, compared to \$951,626 in the fiscal year ended June 30, 2009. Receipts

consisted primarily of payments received for rent or use of buildings and properties of the Connecticut Marketing Authority.

Fund expenditures totaled \$818,702 and \$887,189 for the fiscal years ended June 30, 2010 and 2011, respectively, compared to \$1,020,256 in the fiscal year ended June 30, 2009. The decrease in expenditures was due to budgetary constraints.

Grants to Local Governments and Others Fund:

Expenditures made by the Department from this fund totaled \$505,281 and \$169,816 during the fiscal years ended June 30, 2010 and 2011, respectively, and were mainly for grants from the Department's Farmland Reinvestment and the Farmers' Environmental Assistance programs.

Capital Equipment Purchase Fund:

Expenditures made by the Department from this fund totaled \$37,381 and \$4,202 during the fiscal years ended June 30, 2010 and 2011, respectively. Expenditures were made for the purchase of equipment.

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 Department under the provisions of Title 22, Chapter 422a, of the General Statutes.

Fund expenditures represent payments for the purchase of development rights under the Department's Farmland Preservation Program. Expenditures reported for the fund totaled \$4,326,546 and \$3,842,377 for the fiscal years ended June 30, 2010 and 2011, respectively.

CONDITION OF RECORDS

Our audit identified the following reportable matters:

Control Environment - Service Provider Agreements:

Background: The Department's personnel, payroll and affirmative action functions are administered by the Department of Administrative Services' (DAS) Small Agency Resource Team. Business office functions are administered by DAS' Finance and Budget Unit.

Criteria: Written agreements establish a clear understanding of how an arrangement will function and each agency's role and responsibilities.

Condition: The Department did not have written agreements in place with DAS to administer its human resources and business functions.

Effect: There is an increased probability of misunderstandings between parties of each other's roles and responsibilities.

Cause: Although DAS provided the Department with agreements, the Department has not signed off on them.

Recommendation: The Department should enter into written agreements with DAS that clearly define each agency's roles and responsibilities. (See Recommendation 1.)

Agency Response: "The Department agrees and is working with DAS to define each agency's respective role through a memorandum of understanding."

Milk Producer Grants:

Criteria: Section 56 of Public Act 09-7, enacted by the September 2009 Special Session of the General Assembly, requires the Department of Agriculture to use funds appropriated for milk producer grants to offset the difference between the minimum sustainable monthly cost of production and the federal pay price paid to milk producers. The act allows the commissioner to use up to \$100,000 for costs directly related to the administration of the milk producer grants.

Section 4-97 of the General Statutes provides that no appropriation or part thereof shall be used for any other purpose than that for which it was made unless transferred or revised as provided in Section 4-87 of the General Statutes.

Section 30 of Public Act 09-229 authorizes the Department to make grant payments to milk producers for each month that the federal pay price is below the minimum sustainable monthly cost of production. The grant payments shall be made by the commissioner from the Agricultural Sustainability Account. When the amount of available funds is less than the aggregate amount of grants to which producers are entitled, the commissioner shall distribute all of the funds in the account proportionately based on relative levels of milk production.

Section 4-66aa subsection (b)(4)(I) of the General Statutes permits the Department to use up to ten percent of the Agricultural Sustainability Account funds for the administration of the milk producer grants or the Farmland Preservation Program.

Condition: For the fiscal years ended June 30, 2010 and 2011, we noted administrative expenditures of \$83,500 and \$27,632, respectively, were charged to the milk producer grants that were not used for the administration of milk grants or the Farmland Preservation Program. The expenditures were used for a cooperative agreement to provide animal health and disease diagnostic services and research for livestock, companion animals, wildlife, marine, aquatic and exotic animals.

Effect: The Department was not in compliance with the General Statutes. Fewer grant funds were available to distribute to milk producers.

Cause: The Department approved the payment of funds from the Milk Producer Grant for expenditures that were not for the administration of the grant or the Farmland Preservation Program.

Recommendation: The Department should use milk producer grant funds for the designated purposes as required by state legislation. (See Recommendation 2.)

Agency Response: “(Bureau of Regulation and Inspection) The Department agrees with the finding and will not use Public Act 09-229 funds to carry out aspects of programs that enhance milk producer profitability.”

Auditors’ Concluding Comments:

Funds are permitted to be used for the administration of the milk producer grants. However, the Department used the funds for a cooperative agreement to provide diagnostic services and research for a variety of animal types.

Farm Transition Grants:

Criteria: Section 22-26k subsection (b) of the General Statutes requires the Commissioner of Agriculture to adopt regulations for the administration of the Farm Transition Grant Program. Such regulations shall require the development of a business plan by an applicant as part of the application process.

Article 2.2 of the Farm Transition Grant Program agreement between the Department of Agriculture and the grantee requires that the project period end one year from the agreement execution date. Article 3.4 of the agreement requires a formal written amendment of the agreement for project period extensions. The agreement stipulates that a grantee provide 50 percent cash matching funds.

Attachment A of the Farm Transition Grant Program application describes eligible and ineligible project expenses and specifies that any expense incurred prior to the agreement execution and approval is an ineligible expense. Attachment A also requires that a grantee submit a simple audit with an itemized spreadsheet detailing actual project costs with corresponding copies of invoices.

The Department's Farm Transition Grant Program procedures describe a simple audit as the certification of project expenses by an accountant or certified public accountant (CPA). The grant procedures also explain that a small committee of agricultural principals evaluates each applicant's business plan in order for the Department to make final grant award decisions. The Department's evaluation procedures require that agricultural principals rate each applicant's business plan on a ten point scale and document the points on a master list along with comments.

The State Agencies' Records Retention/Disposition Schedule issued by the Connecticut State Library's Office of the Public Records Administrator requires state agencies, at a minimum, to retain grant administrative records for three years after renewal, termination, or final report, or until audited, whichever is later, and to destroy grant administrative records after receipt of a signed Form RC-108 Records Disposition Authorization.

Condition: Our review of five farm transition grants for fiscal years ended June 30, 2010 and 2011, disclosed the following:

- The Department did not adopt regulations for the administration of the Farm Transition Grant Program.

- The Department did not maintain the evaluations conducted by the committee of agricultural principals used to rank and measure applicant proposals.
- For one grant in the amount of \$49,990, the Department authorized payment for a project that exceeded the one-year period without a grant amendment. The Department authorized the grant payment without obtaining certification of grant expenditures by an accountant or CPA.
- In reviewing the supporting documentation for two grants awarded to the same grantee in the amounts of \$29,100 and \$30,485, respectively, we noted instances of expenditures that were incurred prior to the grant agreement execution date. We also noted that for both grants, summary invoices were on hand from another company owned by the same grantee, from which the expenditures for the projects were paid. These expenditures were not itemized with corresponding copies of the supporting invoices paid. These exceptions resulted in the reimbursement of expenditures of \$29,100 and \$26,448 that were not in compliance with the grant agreements. We also noted for one grant that the Department authorized payment without obtaining certification of grant expenditures by an accountant or CPA.

Effect: Management has less assurance that grant funds and administrative procedures are being applied in accordance with program objectives. Grant expenditures were paid that were not in compliance with the terms of the grant agreements.

Cause: The Department does not have adequate internal controls in place.

Recommendation: The Department should strengthen internal controls over the administration of the Farm Transition Grant Program and should comply with Section 22-26k, subsection (b), of the General Statutes. (See Recommendation 3.)

Agency Response: “The Agency agrees and will strengthen internal controls by adopting regulations for the administration of the Farm Transition Grant Program, retaining evaluations of the applicants for three years after the grant projects are completed and will suggest alternatives to the actual contract to allow minor changes to the projects to account for weather-related issues and other efficiencies.”

Reports Required by Statute:

Criteria: Section 22-38a of the General Statutes requires the Department to submit annually a report on the Connecticut Grown Program to the joint standing committee of the General Assembly having cognizance of matters relating to the environment.

Section 22-3 of the General Statutes requires that the Department of Agriculture shall obtain an inventory of all agricultural land in the state and shall formulate criteria for the designation of lands for which development rights may, in the future, be acquired by the state and shall at least quarterly report such findings made to the joint committee of the General Assembly having cognizance of matters relating to agriculture.

Condition: Our review disclosed that reports on the Connecticut Grown Program and inventory of agricultural land were not prepared during the audited period.

Effect: There is non-compliance with the General Statutes.

Cause: It appears that reports on the Connecticut Grown Program were not submitted due to an oversight. We were informed that an inventory of agricultural lands has never been created.

Recommendation: The Department of Agriculture should institute procedures to ensure that all reports required by statute are submitted as required. (See Recommendation 4.)

Agency Response: “The Agency agrees and has instituted procedures to ensure that all reports required by statute are submitted as required. Legislation is routinely submitted to secure funding necessary to inventory agricultural and open space lands which routinely fails to gain support for passage.”

GAAP Reporting:

Background: The state is required to make certain disclosures in its Comprehensive Annual Financial Report regarding lease transactions when the state is a lessor. The State Comptroller collects this information from state agencies on GAAP reporting forms that are made available to state agencies each year.

Criteria: Instructions for completing GAAP Reporting Form 6 for state leases direct state agencies to report future minimum lease revenues greater than or equal to \$300,000 that are to be collected under non-cancelable operating leases.

- Condition:* Our review disclosed that, although the Department of Agriculture had future lease revenue in excess of \$300,000 for each of the fiscal years ended June 30, 2010 and 2011, GAAP Reporting Form 6 was not prepared and submitted to the State Comptroller.
- Effect:* Future lease revenues reported on the state's financial statements relative to the Department of Agriculture were understated by at least \$1,524,376 and \$1,498,756 in the fiscal years ended June 30, 2010 and 2011, respectively.
- Cause:* We were informed by DAS that at the time the reports were due, they did not believe the Department of Agriculture's leases met the criteria for preparation of the report.
- Recommendation:* The Departments of Agriculture and Administrative Services should ensure that applicable GAAP reporting forms are prepared and submitted to the Office of the State Comptroller. (See Recommendation 5.)
- DAS Response:* "DAS agrees that DAS and the Department of Agriculture (DAG) should ensure that the GAAP Reporting Form 6 is submitted to the Comptroller. The form is completed by DAG and DAS sends it along with the final GAAP report. There was a misunderstanding between the Comptroller's Office and DAS concerning the length of the leases in question and the criteria used for the reporting. The form was completed and submitted to the Comptroller. The form will be submitted with the annual GAAP report in the future."

Compensatory Time and Timesheets:

- Criteria:* The Department of Administrative Services' (DAS) Management Personnel Policy 06-02 states that managers must receive written authorization in advance to work extra time by the agency head or their designee in order to record the extra hours as compensatory time. The written authorization must outline the reason(s) for compensatory time and proof of advance authorization must be retained in the employee's personnel file for audit purposes. The amount of extra time worked must be significant, which does not include the extra hour or two a manager might work to complete normal work assignments in a normally scheduled workday.
- Sound business practices dictate that timesheets be signed by the employee to confirm the hours worked and approved by the supervisor to attest to the hours worked.

Condition: Our review of the annual attendance records of five employees disclosed that two managers who earned compensatory time did not receive written authorization to accrue compensatory time in nine instances, totaling 23 hours. The two managers had 47 instances of earning compensatory time in increments that were not considered significant extra time, totaling 68 hours.

Our review of 40 timesheets revealed that three timesheets were not approved by the supervisor or signed by the employee. Of the three timesheets, two included overtime worked and compensatory time earned. Our review also revealed that 18 timesheets were not signed by the employee, of which 13 included overtime worked and/or compensatory time earned.

Effect: The Department has less assurance that the services it has compensated its employees for have actually been received. Management is receiving compensatory time accruals for insignificant amounts of time.

Cause: The Department did not have adequate procedures in place to ensure that the compensatory time policy was followed and that timesheets were complete and approved. The majority of unsigned timesheets were for employees who worked in designated territories throughout the state.

Recommendation: The Department should strengthen internal controls over the proper documentation of compensatory time and completion of timesheets. The Department should comply with the DAS Management Personnel Policy 06-02. (See Recommendation 6.)

Agency Response: “The Agency agrees and has centralized the documentation of compensatory time records and timesheets within the Office of the Commissioner of Agriculture.

Bureau of Regulation and Inspection - Timesheets

Because Core-CT payroll time sheets do not capture daily staff activities and duties, the Bureau of Regulation and Inspection utilizes an internal timesheet for each staff member that provides details not available to the Agency in Core-CT. This timesheet is transcribed onto a Core-CT timesheet for entry into Core-CT by DAS payroll. Each staff member’s internal time sheet is reviewed by management and initialed as “approved” prior to transcription.

Upon discovery that employee-submitted internal timesheets were not acceptable documentation the bureau implemented a procedure that requires staff and supervisors to sign off on the Core-CT timesheet.

Because most of our staff work in the field, meeting Core-CT entry deadlines is difficult. To avoid these deadline issues and to provide management with more detailed information than can be captured by Core-CT, employee-submitted internal timesheets are transcribed to the Core-CT time sheet. A copy of the Core-CT timesheet is sent to payroll and the original retained. When field staff are in the office they review and sign the original Core-CT timesheet. Supervisors review and sign the original Core-CT time sheet prior to them being sent to payroll to be filed.

A policy has been implemented that requires managers to obtain prior approval to earn and use compensatory time. Managers will comply with the DAS Management Personnel Policy 06-02 and not enter compensatory time not considered significant.”

Internal Control Self-Evaluation:

Criteria: The State Comptroller’s Internal Control Guide requires all state agencies to perform an internal control self-assessment to be completed by June 30th of each fiscal year.

Condition: Our review of the Department’s annual internal control self-evaluation for the fiscal year ended June 30, 2011 that was prepared by DAS on behalf of the Department disclosed that the employee compensation section was not completed in a timely manner and sections related to receipts were not completed based on the procedures in place at the Department of Agriculture.

Effect: There is non-compliance with the State Comptroller’s Internal Control Guide, thereby increasing the risk that internal control weaknesses could go undetected.

Cause: The questionnaire was completed by DAS based on DAS’ knowledge of the Department’s operations and Department of Agriculture personnel were contacted only when DAS had questions.

Recommendation: The Departments of Agriculture and Administrative Services should mutually perform the annual internal control self-evaluation and risk assessment in accordance with the Internal Control Guide issued by the State Comptroller. (See Recommendation 7.)

DAS Response: “DAS agrees and will work with the appropriate individual in DAG to prepare the Internal Control Questionnaire.”

Boards and Councils:

Background: The Connecticut General Statutes relating to the Department of Agriculture provide for several boards, councils and an authority, which will be collectively referred to as boards and include the Connecticut Farm Wine Development Council, the CT Food Policy Council, the CT Marketing Authority, the CT Milk Promotion Board, the CT Milk Regulation Board, the CT Seafood Advisory Council, the Farmland Preservation Advisory Board, and the Governor's Council for Agricultural Development.

Criteria: Section 1-225 of the General Statutes requires public agencies to perform the following: (1) post meeting minutes to the public agency's website not later than seven days after such meeting; (2) file not later than January 31st of each year with the Secretary of the State a schedule of regular meetings for the ensuing year and to post such schedule on the public agency's website; and (3) file not less than 24 hours before a meeting the agenda of such meeting with the Secretary of the State and to post such agenda on the public agency's website.

Sections 22-63, 22-137a, 22-26ll and 22-26c of the General Statutes identify the board member composition requirements and appointing authorities for the CT Marketing Authority, CT Milk Production Board, Farmland Preservation Advisory Board and the CT Farm Wine Development Council, respectively.

Section 22-456 subsection (b) of the General Statutes requires that the CT Food Policy Council shall consist of 14 members, and any person absent from three consecutive meetings of the council, or fifty per cent of such meetings during any calendar year, shall be deemed to have resigned from the council, effective immediately. Section 22-456 subsection (c) of the General Statutes requires that the CT Food Policy Council shall submit an annual report on its activities to the joint standing committee of the General Assembly having cognizance of matters relating to the environment.

Section 22-26e subsection (c) of the General Statutes requires that the Governor's Council for Agricultural Development shall meet at least once each calendar quarter.

Condition: Our review of the boards for fiscal years ended June 30, 2010 and 2011 revealed the following:

- Seven of the eight boards reviewed did not file a schedule of regular meetings for the ensuing year with the Secretary of the

State and all eight did not file agendas with the Secretary of the State. We also noted that three boards did not post meeting schedules on the Department's website. For those boards where a quarterly or monthly schedule was posted, we noted that for three boards, more than half of the meetings did not take place as listed on the Department's schedule.

- For four boards, we noted instances in which the agenda or meeting minutes were not posted to the Department's website in a timely manner.
- The Department could not provide us with the appointment letters for five members who served on the CT Marketing Authority, three members who served on the Milk Promotion Board and five members who served on the CT Food Policy Council. In addition, for the Farmland Preservation Advisory Council, the terms of three members had expired and no reappointment letters were on file. Lastly, for the CT Farm Wine Development Council, two members who were appointed by the former commissioner continued to serve on the council despite the passage of Public Act 09-42, effective July 1, 2009, which changed the appointing authority from the commissioner to the Governor and legislative leaders. The Department was unable to provide us with documentation that these members had been reappointed by an appointing authority identified in Public Act 09-42.
- For the CT Food Policy Council, two appointed members missed three consecutive meetings or fifty percent of meetings in both calendar years 2010 and 2011 and should have been deemed as resigned from the Council. We also noted that a quorum was not present at three meetings. Lastly, the Department was unable to provide us with the CT Food Policy Council annual reports.
- The Governor's Council for Agricultural Development did not meet during the audited period.

Effect: Public notice was not provided for board meetings, minutes and agendas. Without documentation of member appointments, there is less assurance that the boards are operating in compliance with the statutes regarding appointments and full membership.

Cause: A lack of administrative oversight contributed to this condition. The Department did not effectively work with the boards and appointing authorities to ensure compliance with relevant statutes.

Recommendation: The Department should work with the boards to ensure compliance with freedom of information requirements and the General Statutes relating to the boards. The Department should maintain documentation of board

appointments to ensure proper representation on each board. (See Recommendation 8.)

Agency Response: “The Agency agrees and in order to ensure strict compliance with the law, the Department has instituted centralization of all Board and Commission records within the Office of the Commissioner of Agriculture.”

Timely Adoption of Regulations:

Criteria: Various statutory references including Sections 22-118q, 22-136, 22-128 of the General Statutes require that the Department adopt regulations specifying the fees required for various applications.

Public Act 09-3 of the June 2009 Special Session of the General Assembly increased the fees for the application for registration of agricultural and vegetable seed, and required that each fee in effect pursuant to agency regulations adopted pursuant to any section of the General Statutes that is less than one hundred fifty dollars shall be doubled effective October 1, 2009.

Public Act 09-229 revised the fee for the application for registration of brands and grades of fertilizers. Effective January 1, 2010, the fee shall be established by the commissioner by agency regulations.

Section 22-26gg of the General Statutes requires that the commissioner, in consultation with the Farmland Preservation Advisory Board, adopt regulations necessary to carry out the purposes of the Farmland Preservation Program. The Department of Agriculture’s regulations shall provide that individual landowners applying for the Farmland Preservation Program shall be eligible to receive not more than \$20,000 per acre for development rights and that the schedule of the state's contribution for joint ownership projects initiated by municipalities be increased accordingly.

Section 22-26cc of the General Statutes requires that the commissioner of the Department of Agriculture obtain and review appraisals of property selected for the acquisition of development rights to agricultural land.

Condition: Although the Department of Agriculture increased its fees, the Department’s regulations were not updated to reflect the increase in fees as follows:

- Regulations Section 22-57-1 requiring a fee for the application for registration of agricultural and vegetable seed.

- Regulations Section 22-111c-1 requiring the fees for fertilizer registration.
- Regulations Section 22-118q-2 requiring a fee for the application for registration of commercial feed.
- Regulations Section 22-128a-1 requiring a fee for the application for an examiner's license.

Although the Department's purchases of development rights were below the \$20,000 per acre maximum, the Department has not incorporated such limits into its regulations. In addition, although the Department obtains appraisals on property selected for the purchase of development rights, regulations section 22-26gg-5 has not been updated to reflect that this is the responsibility of the Department of Agriculture, rather than the Department of Environmental Protection.

Effect: Confusion may arise and mistakes can occur when there are inconsistencies among authoritative documents.

Cause: The Department did not update its regulations when legislative changes occurred.

Recommendation: The Department of Agriculture should establish and implement procedures to ensure that its regulations are current. (See Recommendation 9.)

Agency Response: "The Agency agrees and will conduct a review of all Department regulations, update and make corrections and begin the process of adoption by the Legislature in anticipation of all agency regulations becoming available on the internet."

Revenue/Receipts – Timely Depositing, Accounting and Receipts Journal:

Background: The Department of Agriculture collects various types of receipts throughout its bureaus. Receipts collected at the Department's main location are picked up by the Department of Administrative Services for deposit. Receipts are also collected at the Bureau of Aquaculture and the CT Marketing Authority, where they are deposited by Department of Agriculture staff. The Department of Administrative Services has been posting deposits to Core-CT for the Department of Agriculture since the consolidation of the Department's business office functions in 2006.

Criteria: The Comptroller's State Accounting Manual requires agencies to keep a receipts journal that indicates the date of receipt.

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. The State Treasurer is authorized to make exceptions to the limitations herein prescribed upon written application from the head of the state agency stating that compliance would be impracticable and giving the reasons therefore. The Department did seek and receive from the State Treasurer separate four-business-day waivers pertaining to deposits of funds received during seasonal high volume periods. The waivers were granted to the Department's Bureau of Regulation and Inspection.

The Office of the State Treasurer's January 6, 2006, Memorandum on Deposit Reporting Timeframes requires that agencies should complete the confirmation of bank data and journalizing steps by the end of the day that the deposit information is received by the agencies through the Core-CT accounting system. The Department of Administrative Services was granted a six-calendar-day waiver for the reporting of funds deposited by individual agencies for both the fiscal years ended June 30, 2010 and 2011.

Sound records retention procedures ensure that financial records are adequately secured and safeguarded against loss.

Condition:

We tested 74 receipts totaling \$537,200 for timely deposit. Our review disclosed the following:

- Fourteen receipts in the Bureau of Regulation and Inspection were deposited between one and 15 days late.
- For five receipts totaling \$7,968 at the CT Marketing Authority, we could not determine the receipt date and therefore could not determine if the receipt was deposited timely. In addition, one cash receipt book was missing a receipt copy and it could not be determined if this receipt was ever accounted for.
- The Farmland Preservation Unit did not maintain a receipts journal and we were unable to determine the receipt date of the two receipts reviewed totaling \$7,352.
- Eight receipts totaling \$18,060 received at the Bureau of Aquaculture were deposited between one and 13 days late. In addition, for eight receipts totaling \$355,673, we could not determine the receipt date, as the bureau did not record the receipts in its receipts log. We were informed that the bureau records only receipts received in the mail in its receipts log.

Our review also included a review of 45 receipts totaling \$509,800 for timely accounting. Our review disclosed that five receipts totaling \$29,282 were accounted for between one to 11 days late.

Effect: Untimely deposits deprive the state of the use of revenue and increase the risk of loss or theft. Without a receipts journal, it is unknown whether agency receipts were deposited in a timely manner as required by Section 4-32 of the General Statutes, and incomplete receipts records are in violation of the State Comptroller's requirements.

Cause: Internal control over the accounting for and depositing of receipts was inadequate.

Recommendation: The Departments of Agriculture and Administrative Services should strengthen internal controls to ensure that a receipts journal is maintained and receipts are deposited and accounted for in a timely manner. (See Recommendation 10.)

DAS Response: "DAS agrees. Since the Regional Market and Aquaculture deposit their own checks and send us the information to post to Core-CT, it is very difficult to ensure that all receipts are deposited and recorded in a timely manner. DAS will work with DAG to strengthen internal controls over the receipts."

DAG Response: "The Agency agrees and the Bureau of Aquaculture and the Regional Market's administrative staff have each strengthened internal controls and instituted an afternoon deposit schedule when possible, to ensure that the requirements of section 4-32 of the General Statutes are met. The Agency will work with DAS to maintain an accurate receipts journal for the Farmland Preservation unit.

In their testing of receipts for the Bureau of Regulation and Inspection, the auditors found 14 receipts in which the checks were deposited between one and 15 days late. Although we do obtain an official waiver from the State Treasurer's Office to extend the time limit on deposits to 4 days, other circumstances exist that cause difficulty in meeting the time limit:

- Limited staffing in the licensing unit dates back to the transfer of DAG Business Office staff, and not all Business Office functions, to DAS. The absence of only one staff person in that unit on a particular day can make a difference in timely deposits.
- Some license and registrations require the expertise of a field person to verify accuracy such as the review of pet food labels.

Depositing checks without such verification can result in refunds which is an extremely cumbersome process.

Within the constraints of limited staffing resources in the Licensing Unit, the Bureau will continue to make every effort to comply with the time limit for check and cash deposits.”

Regional Market Lease Agreements and Receipts:

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

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

Condition: Our review of the 21 lease agreements and receipts for the 16 tenants at the Regional Market during the fiscal years ended June 30, 2010 and 2011, disclosed the following.

- The Department was unable to provide us with lease agreements for ten leases that were in effect from June 1, 2008 to May 31, 2011.
- Two leases did not contain approval of the Attorney General’s Office and the State Properties Review Board.
- One lease did not contain a surety bond or letter of credit.
- One monthly lease payment of \$3,729 that was billed was not received by the CMA and no follow-up action was taken on the part of CMA prior to our review.
- Although the lease agreements expired on May 31, 2011, at the time of our review in February 2012, new leases had not been executed. In addition, although the CMA Board of Directors approved a five percent increase in the lease rates, tenants have continued to make payments based on the expired leases.

- Effect:* Incomplete contract terms can result in uncertainty for the parties involved. There is a loss of revenue for the state when approved lease increases are not collected or uncollected lease payments are not detected.
- Cause:* The administration of the leasing process was not properly monitored.
- Recommendation:* The Connecticut Marketing Authority should establish and implement proper procedures to ensure that all tenants have an appropriate lease agreement and should implement controls to ensure that all lease payments are properly monitored. (See Recommendation 11.)
- Agency Response:* “The Agency agrees that the Connecticut Marketing Authority should establish and implement proper procedures to ensure all tenants have properly executed lease agreements and should implement controls to ensure all lease payments are properly monitored. Going forward, the Agency is in the initial planning stages of a major repair and renovation project at the Regional Market and believes that the interests of the state are best served, for the immediate future, by employing month to month lease arrangements. Month to month leases reduce the state’s exposure by reducing the tenant lease hold interest. This provides the Department the required flexibility in rental space assignments when anticipated building repairs and upgrades commence. The Agency and Authority intend to review and evaluate prospective increases in lease rates during the building upgrade process. The Agency continues to work extensively with the Office of the Attorney General to ensure that the state’s interests are protected.”

Farmland Leases and Receipts:

Criteria: Section 22-6e of the General Statutes provides for a program for the use of vacant public land owned by the state for gardening or agricultural purposes. The Department of Agriculture may enter into agreements for the use of such vacant public land. Any payments pursuant to an agreement for the use of state land for agricultural purposes shall be credited in equal shares to the General Fund account of the agency whose land is being used for such purposes and to the Department of Agriculture for the purpose of administering the program.

During the audited period, the Department of Agriculture and the Department of Corrections had such agreements in place.

Sound business practices dictate that lease receipts should be properly monitored.

Condition: For fiscal years ended June 30, 2010 and 2011, our review of three leases revealed that the Department did not have procedures in place to monitor the receipt of lease payments from lessees and the distribution of lease revenue to other state agencies. We noted that the Department did not maintain copies of lease agreements for land owned by other state agencies for which the Department collected payments and did not credit 50 percent of the lease revenue. We also noted that lease receipts were not properly coded. Lastly, for one lease, the Department did not collect monthly lease payments for over one year and could not provide any written documentation that any enforcement action was taken by the Department or that the agreement was amended. At the time of our review, the lessee owed the Department \$22,100.

Effect: Lease revenue was not distributed to respective state agencies and state assets were not properly safeguarded.

Cause: The Department does not have procedures in place to monitor lease agreements, receipts or distributions.

Recommendation: The Department of Agriculture should establish and implement procedures to ensure compliance with farmland lease statutes and agreements and enforce the state's rights in the event of default. (See Recommendation 12.)

Agency Response: "The Agency agrees to work with DAS to establish and implement procedures to monitor and properly code the receipt of lease payments, to ensure that lease revenue is properly distributed to other state agencies and in the event of a default, to enforce the state's rights."

Bureau of Aquaculture – Lease Administration and Monitoring:

Criteria: Section 26-194 of the General Statutes provides that the Commissioner of Agriculture may lease shellfish areas. The form of such application and lease shall be approved by the Attorney General, and all such leases shall be recorded in the records of the commissioner. A lease renewal shall not be granted if the applicant is in arrears for rent on the original lease of such grounds.

The Bureau of Aquaculture's standard oyster grounds lease stipulates that annual lease payments be paid in advance of the effective date of the lease each and every year.

Condition: Our test of 30 annual lease payments totaling \$477,583 received by the bureau disclosed that payments were not received timely as follows:

- Five payments totaling \$18,325 were received between 8 and 69 days late
- One payment of \$6,553 was received more than 100 days late.
- One lessee, with an arrearage of \$105,150, was allowed to continue to farm his shellfish grounds for one year after his lease had expired. It was not until approximately one year after expiration of the lease that the lessee paid the initial arrearage as well as the additional yearly payment due of \$105,150. During this period, the lessee was also in default on nine other leases, on which the Department took enforcement action subsequent to the audit period.

Effect: Lessees have no incentive to make payments on time. The lack of a lease agreement can result in uncertainty for the parties involved.

Cause: Leases do not include provisions for assessing and collecting late payment penalties and fees.

We were informed that the Department informally agreed to allow the lessee to lease the shellfish area on a month-to-month basis while they informally agreed to address the lessee's payment problem.

Recommendation: The Bureau of Aquaculture should consider including late payment penalty and/or fee provisions in new leases and leases up for renewal and ensure that all lease agreements are in writing. (See Recommendation 13.)

Agency Response: "Bureau of Aquaculture administrative staff will strengthen internal controls to insure that annual lease payments are paid in advance of the effective date of the lease.

The Agency, with the assistance of the Attorney General's Office has initiated court proceedings to recover all lease arrearages."

Property Inventory and Reporting:

Criteria: Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the Comptroller. The agency is required to transmit annually to the Comptroller a detailed inventory of all property, real or personal, owned by the state and in custody of such agency. The State Property Control Manual requires agencies to use asset management queries to complete the CO-59 form. If the values recorded on the CO-59 do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy.

The State Property Control Manual specifies requirements and standards that state agency property control systems must comply with, including tagging, recording and maintaining capital assets and controllable property on the Core-CT Asset Management Module.

Condition: Our review of the Department's CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2010 and 2011 that was prepared by the Department of Administrative Services disclosed the following:

- Site improvements were understated by \$166,087 for each fiscal year, as a site improvement in 2009 for one of the buildings at the Regional Market was never recorded.
- Equipment reported for each fiscal year did not agree with values reported in Core-CT by \$51,589. The Department of Administrative Services did not provide a written explanation of the discrepancy in an attachment to the CO-59.
- The easements balance reported for the fiscal year ended June 30, 2010 was overstated by \$99,758,242. Although the proper amount was reported on the CO-59 for the fiscal year ended June 30, 2011, the value reported in Core-CT was overstated by \$90,648,972 and the Department of Administrative Services did not provide a written explanation of the discrepancy in an attachment to the CO-59.

Our review of 25 inventory items on the Department's inventory records disclosed that one item valued at \$870 could not be located and one item valued at \$9,652 was improperly tagged. Review of ten items selected by random inspection of the Department's premises revealed that two items were not recorded in the Core-CT Asset Management Module.

Effect: The Department is not in compliance with the requirements of the State Property Control Manual. Deficiencies in the control over equipment inventory provide a decreased ability to properly safeguard state assets and accurately report the Department's inventory.

Cause: Internal control over asset accountability and reporting was inadequate.

Recommendation: The Departments of Agriculture and Administrative Services should improve their internal control over asset accountability and reporting. (See Recommendation 14.)

DAS Response: "DAS agrees that site improvements were not on the CO-59. We will correct the oversight and make sure that all site improvements are included on the CO-59 for June 30, 2012."

DAG Response: “The Agency agrees to work with DAS to make sure that all site improvements are reported correctly.”

Dog Fund Review – Timely Transfers:

Background: The Connecticut Department of Agriculture's Animal Control Division is responsible for the investigation of property damage, injury and nuisance caused by dogs. The division is charged with the enforcement of laws pertaining to the licensing and control of dogs, the licensing and inspection of pet facilities, and rabies control.

Criteria: Section 22-347 of the General Statutes requires town treasurers or other fiscal officers to pay the Commissioner of Agriculture a percentage of all monies received from the sale of dog licenses each year. Monies received are deposited into the Funds Held for Others account administered by the State Treasurer.

Section 22-328 subsection (b) of the General Statutes provides that dog funds in the custody of the State Treasurer be used to pay for expenses incurred by the Department’s Animal Control Unit for the same fiscal year as expenses are incurred.

Condition: Reimbursements to the General Fund for expenses of the Animal Control Unit were not made in a timely manner. Expenditures incurred in the fiscal years ended June 30, 2010 and 2011 had not been reimbursed to the General Fund at the time of our review in April 2012. In addition, during the fiscal year ended June 30, 2011, DAS processed a reimbursement to the General Fund for expenses incurred during the fiscal year ended June 30, 2008. Receipts collected during the fiscal years ended June 30, 2008 and 2009 had essentially already been transferred to the General Fund due to a transfer of dog fund receipts posted on July 1, 2009 to assist with the mitigation of the state budget deficit.

Effect: Transfers to cover Animal Control Unit expenditures were not made in the same year that expenses were incurred.

Cause: Confusion resulted when a transfer of dog fund proceeds was made to assist in state deficit mitigation.

Recommendation: The Department of Administrative Services should process transfers to the General Fund to cover expenditures of the Animal Control Unit in the same fiscal year as expenses are incurred. (See Recommendation 15.)

DAS Response: “DAS agrees that the funds should be transferred to the General Fund to cover expenditures in the same fiscal year but a balance has to remain in the account for liabilities in the beginning of the next fiscal year. We will review the account and do the transfers on a quarterly basis. We will work with DAG to come up with procedures and to determine what amount will need to stay in the account at fiscal year-end to cover the first quarter liabilities.”

DAG Response: “(Bureau of Regulation and Inspection) The commissioner will discuss with DAS ways to improve the timeliness of processing transfers to the general fund to cover expenditures of the Animal Control Unit in the same fiscal year as expenses are incurred.”

Unapproved Bank Account:

Background: Section 22-26c of the General Statutes establishes the Connecticut Farm Wine Development Council, which is within the Department of Agriculture for administrative purposes only. The Commissioner of Agriculture shall be the chairman of the council. The council may receive funds from any source and expend such funds as may be necessary to carry out its duties.

Criteria: Section 4-38f of the General Statutes states that the department to which an agency is assigned for administrative purposes only shall: (1) provide record keeping, reporting, and related administrative and clerical functions for the agency to the extent deemed necessary by the department head; (2) disseminate for the agency any required notices, rules or orders adopted, amended or repealed by the agency; (3) provide staff for the agency subject to the provisions of subdivision (3) of subsection (a) of this section; and (4) include in the departmental budget the agency's budgetary request, if any, as a separate part of said budget and exactly as prepared and submitted to the department by the agency.

Section 4-33 of the General Statutes requires that state bank accounts shall be approved by the Office of the State Treasurer and the Office of the State Comptroller. The State Accounting Manual requires that before opening any type of bank account, written permission from both the Office of the State Treasurer and the Office of the State Comptroller must be obtained by submitting a Bank Account Establishment Request Form and a Bank Account Identification Form.

Condition: The CT Farm Wine Development Council maintained a bank account outside of the State's Core-CT accounting system that was not approved by the Office of the State Treasurer or the Office of the State Comptroller. This matter was reported to the Auditors of Public Accounts by the

Commissioner of Agriculture. Subsequently, in May 2012, the State Treasurer's office notified the Commissioner of Agriculture that a Bank Establishment Request Form should be submitted or the account should be closed.

Effect: There is non-compliance with Sections 4-33 and 4-38f of the General Statutes. The maintenance of the council's account outside of Core-CT prevents the State Comptroller and the Department of Agriculture from complying with Section 4-38f and producing relevant reporting and recordkeeping that would normally be expected of a state agency.

Cause: The cause is unknown.

Recommendation: The Department of Agriculture should work with the CT Farm Wine Development Council to comply with Sections 4-33 and 4-38f of the General Statutes with respect to the council's bank account. (See Recommendation 16.)

Agency Response: "The Department of Agriculture agrees with the recommendation and is working with the Connecticut Farm Wine Development Council and DAS to close the separate account and will manage the financial affairs of the Farm Wine Development Council through the Core-CT accounting system in compliance with sections 4-33 and 4-38f."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Department should enter into written agreements with DAS that clearly define each agency's roles and responsibilities. This recommendation is repeated. (See Recommendation 1.)
- The Department should coordinate appropriate on-going ethics training programs for its employees and establish procedures that ensure employee participation in the programs. This recommendation has been resolved, as employees have participated in on-line ethics training.
- The Departments of Agriculture and Administrative Services should mutually perform the annual internal control self-evaluation and risk assessment in accordance with the Internal Control Guide issued by the State Comptroller. This recommendation is repeated. (See Recommendation 7.)
- The Department should establish and implement internal controls that ensure receipts are accounted for and deposited in accordance with Section 4-32 of the General Statutes. In addition, requests for waivers to the State Treasurer seeking exceptions to the depositing limitations should be based upon the actual time needed to process the deposits. This recommendation is repeated to reflect current conditions. (See Recommendation 10.)
- The Department should establish and maintain receipts journals at locations receiving money. This recommendation is repeated to reflect current conditions. (See Recommendation 10.)
- The Department should establish and implement internal controls that ensure receipt transactions are accurately and consistently coded. This recommendation has been resolved.
- The Connecticut Marketing Authority should establish and implement formalized records retention procedures that ensure records are adequately inventoried and secured. This recommendation is repeated to reflect current conditions. (See Recommendation 11.)
- The Department should ensure that accurate and complete information is obtained prior to calculating and distributing grant funds. This recommendation has been resolved.
- The Department should adhere to state fiscal statutes on the use and transfer of appropriations. This recommendation is repeated. (See Recommendation 2.)
- The Department should review its policies and procedures to administer the Farm Transition Program to determine whether established internal controls have been implemented in accordance with management's objectives and adopt regulations in accordance with Section 22-26k(b) of the General Statutes. This recommendation is repeated to reflect current conditions. (See Recommendation 3.)

- The Department should establish a separate appropriation account to administer the federal Farm and Ranch Lands Protection Program. This recommendation has been resolved.
- The Connecticut Marketing Authority should establish and implement administrative controls to ensure that required lease documents are obtained. This recommendation is repeated. (See Recommendation 11.)
- The Bureau of Aquaculture should consider including late payment penalty and/or fee provisions in new leases and leases up for renewal. This recommendation is repeated. (See Recommendation 13.)
- The Department should establish and implement administrative controls that ensure compensatory time granted is formally pre-approved and awarded for extra work considered to be significant. This recommendation is repeated. (See Recommendation 6.)
- The Department should ensure that periodic performance appraisals are performed on all of its employees. This recommendation has been resolved.
- The Departments of Agriculture and Administrative Services should improve their internal control over asset accountability and reporting. This recommendation is repeated. (See Recommendation 14.)
- The Departments of Agriculture and Administrative Services should ensure that lease revenue reported on GAAP forms is accurate. This recommendation is repeated to reflect current conditions. (See Recommendation 5.)
- The Department should process reimbursements to the General Fund for expenses of the Animal Control Unit in a timely manner. This recommendation is repeated. (See Recommendation 15.)

Current Audit Recommendations:

- 1. The Department should enter into written agreements with DAS that clearly define each agency's roles and responsibilities.**

Comment:

The Department did not have written agreements in place with DAS to administer its human resources and business functions.

- 2. The Department should use milk producer grant funds for the designated purposes as required by state legislation.**

Comment:

For the fiscal years ended June 30, 2010 and 2011, we noted administrative expenditures of \$83,500 and \$27,632, respectively, were charged to the milk producer grants that were not used for the administration of milk grants or the farmland preservation program.

- 3. The Department should strengthen internal controls over the administration of the farm transition grant program and should comply with Section 22-26k, subsection (b), of the General Statutes.**

Comment:

We noted that the Department did not adhere to several terms and conditions contained in grant applications and agreements with grantees. The Department has yet to adopt regulations for the program and did not maintain the evaluations conducted by the committee of agricultural principals used to rank and measure applicant proposals.

- 4. The Department of Agriculture should institute procedures to ensure that all reports required by statute are submitted as required.**

Comment:

Our review disclosed that reports on the Connecticut Grown Program and inventory of agricultural land were not prepared during the audited period.

- 5. The Departments of Agriculture and Administrative Services should ensure that applicable GAAP reporting forms are prepared and submitted to the Office of the State Comptroller.**

Comment:

Our review disclosed that, although the Department of Agriculture had future lease revenue in excess of \$300,000 for each of the fiscal years ended June 30, 2010 and 2011, GAAP Reporting Form 6 was not prepared and submitted to the State Comptroller.

- 6. The Department should strengthen internal controls over the proper documentation of compensatory time and completion of timesheets. The Department should comply with the DAS Management Personnel Policy 06-02.**

Comment:

We noted instances in which two managers earned compensatory time without receiving written authorization and instances of earning compensatory time in increments that were not considered significant extra time. Our review of timesheets disclosed instances in which timesheets were not signed or approved.

- 7. The Departments of Agriculture and Administrative Services should mutually perform the annual internal control self-evaluation and risk assessment in accordance with the Internal Control Guide issued by the State Comptroller.**

Comment:

Our review of the Department's annual internal control self-evaluation for the fiscal year ended June 30, 2011 that was prepared by DAS on behalf of the Department disclosed that the employee compensation section was not completed in a timely manner and sections related to receipts were not completed based on the procedures in place at the Department of Agriculture.

- 8. The Department should work with the boards to ensure compliance with freedom of information requirements and the General Statutes relating to the boards. The Department should maintain documentation of board appointments to ensure proper representation on each board.**

Comment:

Our review disclosed that the boards did not consistently file with the Secretary of the State and post on the Department's website meeting schedules, agendas, minutes and notices of meetings. We also noted issues with member absenteeism, vacancies and term appointments

9. The Department of Agriculture should establish and implement procedures to ensure that its regulations are current.

Comment:

We noted several instances in which the Department's regulations were not updated to reflect changes required by state legislation.

10. The Departments of Agriculture and Administrative Services should strengthen internal controls to ensure that a receipts journal is maintained and receipts are deposited and accounted for in a timely manner.

Comment:

We noted instances of late deposits and a lack of receipts journals throughout the Department's bureaus. We also noted instances of late accounting by DAS.

11. The Connecticut Marketing Authority should establish and implement proper procedures to ensure that all tenants have an appropriate lease agreement and should implement controls to ensure that all lease payments are properly monitored.

Comment:

Our review of the 21 lease agreements and receipts for the 16 tenants at the Regional Market disclosed that the Department was unable to provide us with lease agreements for ten leases that were in effect from June 1, 2008 to May 31, 2011. Although the lease agreements expired on May 31, 2011, at the time of our review, new leases had not been executed. In addition, although the CMA Board of Directors approved a five percent increase in the lease rates, tenants have continued to make payments based on the expired leases. We also noted instances of missing approvals or documentation in the lease agreements.

12. The Department of Agriculture should establish and implement procedures to ensure compliance with farmland lease statutes and agreements and enforce the state's rights in the event of default.

Comment:

Our review of three farmland leases revealed that the Department did not have procedures in place to monitor the receipt of lease payments from lessees and the distribution of lease revenue to other state agencies.

13. The Bureau of Aquaculture should consider including late payment penalty and/or fee provisions in new leases and leases up for renewal and should ensure that all lease agreements are in writing.

Comment:

We noted several lease payments that were received well after the due date of the lease payment. The bureau's standard oyster grounds lease agreement does not have provisions for assessing late payment fees or penalties. We also noted that one lessee, with an arrearage of \$105,150, was allowed to continue to farm his shellfish grounds for one year after his lease had expired.

14. The Departments of Agriculture and Administrative Services should improve their internal control over asset accountability and reporting.

Comment:

Our review disclosed errors in the preparation of the Department's CO-59 Fixed Assets/Property Inventory Report that was prepared by the Department of Administrative Services. Our review of 25 inventory items on the department's inventory records disclosed that one item valued at \$870 could not be located and one item valued at \$9,652 was improperly tagged. Review of ten items selected by random inspection of the Department's premises revealed that two items were not recorded in the Core-CT Asset Management Module.

15. The Department of Administrative Services should process transfers to the General Fund to cover expenditures of the Animal Control Unit in the same fiscal year as expenses are incurred.

Comment:

Reimbursements to the General Fund for expenses of the Animal Control Unit were not made in a timely manner.

16. The Department of Agriculture should work with the CT Farm Wine Development Council to comply with Sections 4-33 and 4-38f of the General Statutes with respect to the council's bank account.

Comment:

The CT Farm Wine Development Council maintained a bank account outside of the State's Core-CT accounting system that was not approved by the Office of the State Treasurer or the Office of the State Comptroller.

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, 2010 and 2011. This audit was primarily limited to performing tests of the Department of Agriculture's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Department of Agriculture internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Department of Agriculture are complied with, (2) the financial transactions of the Board are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Department of Agriculture are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Agriculture for the fiscal years ended June 30, 2010 and 2011, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

In accordance with statute certain executive branch agencies can be subject to some or all business office and other administrative functions being assumed by the Department of Administrative Services (DAS). When this occurs, memoranda of agreement are to be executed detailing whether DAS or the audited agency retains ultimate responsibility for compliance with laws, regulations, contracts and grant agreements. In the absence of such agreements, the audited agency would remain responsible for all compliance issues that may arise. When referring to the controls of the audited agency, we are also referring, where appropriate, to the relevant controls that DAS has in place to ensure compliance.

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:

Management of the Department of Agriculture and the Department of Administrative Services is now responsible for establishing and maintaining internal control over the Department of Agriculture's financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Agriculture's pre-existing 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 Department of Agriculture's financial operations, safeguarding of assets, and compliance with certain provisions of laws,

regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Department of Agriculture's internal controls over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department of Agriculture's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Department of Agriculture's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendation numbers 1 - Control Environment – Service Providers, 7 – Internal Control Self-Evaluation, 10 – Revenue/Receipts – Timely Depositing, Accounting and Receipts Journal, 11 – Regional Market Lease Agreements and Receipts, 12 – Farmland Leases and Receipts, 13 – Bureau of Aquaculture – Lease Administration and Monitoring, 14 – Property Inventory and Reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

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.

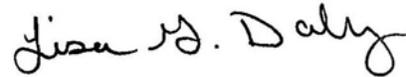
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to agency management in the accompanying Condition of Records and Recommendations sections of this report.

The Department of Agriculture's and Department of Administrative Services' 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 and Department of Administrative Services' responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Department of Agriculture's management, the Department of Administrative Services, 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.



Lisa G. Daly
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts