

STATE OF CONNECTICUT

**AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL
EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
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AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

We have examined the financial records of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 1999 and 2000. This report on that examination consists of the following Comments, Recommendations and Certification. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Station's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Station's internal control structure policies and procedures established to ensure such compliance.

We have relied on the financial audit of the Station's fiduciary funds' investment activity conducted by the Board's independent public accountants covering the fiscal years ended June 30, 1999 and 2000, after having satisfied ourselves as to the firm's professional reputation, qualifications and independence and verifying that generally accepted accounting principles and auditing standards were followed in the audits and in the preparation of the reports.

COMMENTS

FOREWORD:

The principal function of the Connecticut Agricultural Experiment Station (Station) is basic and developmental research in plant science directed toward the agricultural problems of the State. The Station also performs analyses relating to milk, feed and fertilizer, foods and cosmetics. It has charge of controlling insects and diseases that are capable of damaging plants of economic importance and has responsibilities in controlling contagious diseases among honeybees.

Auditors of Public Accounts

The Station operates primarily under the provisions of Title 22, Chapters 426, 427a and 428a, of the General Statutes, and it also has authority and responsibilities under Title 21a, Chapter 418; Title 22, Chapter 430; Title 22a, Chapter 441; and Title 23, Chapter 451. In accordance with Section 22-79 of the General Statutes, the Connecticut Agricultural Experiment Station is within the Department of Agriculture for administrative purposes only.

Dr. John F. Anderson served as Director of the Station during the audited period.

Membership of the Board of Control:

In accordance with Section 22-79 of the General Statutes the management of the Station is vested in an eight-member Board of Control. As of June 30, 2000, the following were members:

Shirley Ferris, Commissioner of Agriculture
Richard H. Bowerman
Norma O'Leary
John Lyman III
Dr. Donald B. Oliver
Leon J. Zapadka
Governor John G. Rowland, ex officio
Dr. John F. Anderson, ex officio

Dr. Gregory S. Horne also served on the board until August 1999.

RÉSUMÉ OF OPERATIONS:

General Fund receipts totaled \$1,686,238 and \$2,898,989 for the fiscal years ended June 30, 1999 and 2000, respectively. General Fund receipts for the fiscal year ended June 30, 1998 totaled \$1,964,731. A comparison of General Fund receipts is summarized below:

	<u>Fiscal Year Ended June 30,</u>	
	<u>1999</u>	<u>2000</u>
Revenue and Other Receipts:		
Miscellaneous revenues	4,590	4,037
Refunds of expenditures	<u>2,881</u>	<u>7,987</u>
Total Revenue and Other Receipts	7,471	12,024
Restricted Contributions:		
Other than Federal	162,084	303,778
Federal	<u>1,516,682</u>	<u>2,583,187</u>
Total Restricted Contributions	1,678,766	2,886,965
Total General Fund Receipts	<u>\$1,686,237</u>	<u>\$2,898,989</u>

General Fund revenues decreased 14 percent and increased 72 percent for the fiscal years ended June 30, 1999 and 2000, respectively. Federal grants for research programs accounted for

89 percent of the Station's General Fund receipts in both fiscal years. The overall decrease in fiscal year 1999 and a portion of the large increase in fiscal year 2000 resulted from the last Federal drawdown for several FY 1999 Federal grants being credited in FY 2000. The Station received several new grants including transfers from the Department of Health for Lyme Disease and mosquito research in FY 2000.

In addition to General Fund receipts, the Station also received funds from Special Revenue Funds (1169) for Agency administered Capital Projects. The following are funds received during the audited period.

	<u>Fiscal Year Ended June 30,</u>	
	<u>1999</u>	<u>2000</u>
Special Revenue Funds:		
Inter Agency/Intra-Agency Grants (1169) –		
Tax Exempt Proceeds	<u>\$97,922</u>	<u>\$157,605</u>

The projects administered by the Station included heating and hot water alterations, a new roof and renovations of laboratories.

A comparison of expenditures by fund and within the General Fund by categories of appropriation accounts for the audited period and the fiscal year ended June 30, 1998, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Fund:			
Budgeted Accounts:			
Personal services	\$4,067,955	\$4,288,754	\$4,762,932
Contractual services	317,799	347,150	357,913
Commodities	93,028	123,640	188,665
Capital outlay	56,047	73,699	281,375
Buildings and Improvement	<u>0</u>	<u>0</u>	<u>1,635</u>
Total Budgeted Accounts	<u>4,534,829</u>	<u>4,833,243</u>	<u>5,592,520</u>
Restricted Accounts:			
Other than Federal	45,385	121,645	155,866
Federal	<u>1,805,736</u>	<u>1,913,251</u>	<u>2,174,784</u>
Total Restricted Accounts	<u>1,851,121</u>	<u>2,034,896</u>	<u>2,330,650</u>
Total General Fund	<u>\$6,385,950</u>	<u>\$6,868,139</u>	<u>\$7,923,170</u>
Other Fund Expenditures:			
Special Revenue Fund (1169)	212,155	126,920	86,200
Capital Equipment Purchase Fund	275,033	87,806	170,270
Capital Improvements Fund	<u>998</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$6,874,136</u>	<u>\$7,082,865</u>	<u>\$8,179,640</u>

General Fund expenditures increased eight percent and 15 percent in the fiscal years ended June 30, 1999 and 2000, respectively. The largest increases were in Personal Services and Federal Restricted accounts. The \$474,178 increase in personal services in fiscal year 2000 was a result of 1999 collective bargaining and annual salary increases being delayed until fiscal year 2000. The capital outlay increase of \$207,676 was a result of new laboratory equipment purchases bought under the Y2K program.

General Fund Restricted Account increases resulted from collective bargaining increases, and durational assistants and Post Doctoral scientists being hired to work on new grants. Also there was a large expenditure for scientific equipment for the Station's Analytical Chemistry Department.

Fiduciary Funds

The Connecticut Agricultural Experiment Station administers fiduciary funds that support the development and research activities of the Station. The funds include both Trustee and Research funds. The funds are subject to review by outside independent auditors with an annual audit report being issued. The combined assets of the Trustee funds totaled \$8,556,996 and \$8,506,344 for fiscal years ended June 30, 1999 and 2000, respectively. The combined assets of the Research funds for the same periods totaled \$2,824,805 and \$2,762,008, respectively.

Experiment Station Associates, Inc.

The Experiment Station Associates, Inc., was established in 1990 and is a publicly supported non-profit foundation. Its purpose is to educate the public and make known the availability of scientists and testing facilities at the Connecticut Agricultural Experiment Station. The foundation paid for informational brochures and provided volunteers for some of the Station's annual events.

In accordance with Section 4-37f, subsection (8) of the General Statutes, an independent certified accounting firm performed an audit of the Foundation's books for the year ended December 31, 1998 and issued an unqualified opinion. In addition, the Foundation submitted year-end financial statements for the years ended December 31, 1999 and 2000.

PROGRAM EVALUATION

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation as part of its routine audits of public and quasi-public agencies. We selected to review whether the Board of Control has taken steps to determine if fees should be implemented for Station services as provided for by Section 22-81, subsection (c) of the General Statutes.

Effective July 1, 1996, Public Act 96-116 later codified as Section 22-81, subsection (c) of the General Statutes states that "the board may cause the station to charge a fee for any testing services which it may provide to the public". Currently no fees are being charged for services. We reviewed whether the Board has made any attempts to evaluate the services the Station offers and if it would be feasible to charge fees for its services.

Our review disclosed that the Board of Control has considered implementing fees several times. Fees for the following services were discussed: soil testing, tick testing, beekeeper registration, houseplant inspections, nursery registrations and inspections, dealer registrations and phytosanitary inspections. A cost analysis and possible fee schedule was developed in 1997 and again in January 1999.

The 1997 analysis included: proposed fees based on each type of service offered; the estimated annual volume of requests for each service and/or registration; the proposed income each would generate; and the cost of performing each service. The cost of performing each service was based on: the estimated time each test would take; the cost of the employee's time in performing the testing; and any overhead costs. Overhead costs included the purchasing of new software to track the billings and payments of each service provided, indirect costs, and the salary of an additional employee that would be needed to collect and account for the new testing and registrations fees. The analysis also included a comparison of fees charged by surrounding States for services. The analysis concluded that the costs would far outweigh the anticipated revenues.

The 1999 analysis compared estimated annual revenues from new fees to the anticipated cost of hiring an additional employee who would be responsible for preparing and sending bills, tracking payments and properly accounting for all moneys collected. Fees associated with tick testing was eliminated from this analysis since Section 22-81, subsection (c) of the General Statutes states that the Station can only test ticks for Lyme disease at the request of a State or municipal health official. The Station would have to bill individual health departments, who in turn would charge residents. Resident fees would probably be higher to help pay for the health departments' administrative costs. The Station believes that the number of residents using these services would drop if fees were charged thus resulting in a decrease in revenues collected for such services.

It is also expected that the number of registrations/inspections of nurseries and beekeepers would also drop if fees were charged. Many of the participants in these activities are either small businesses that could consider closing if fees were established or residents that see these activities as hobbies and not income-producing endeavors. In addition, the Station performs a large portion of its testing for other State agencies. Charging them fees would be counter-productive in generating income. Fees charged to State agencies would be paid using State funds and the Station would then deposit the money back into the State's General Fund. The end result of the 1999 analysis concluded that the estimated net revenues generated by fees would be approximately \$12,000 annually.

The 1997 and 1999 analyses were presented to an Appropriations Subcommittee of the General Assembly for consideration. In both instances, the Subcommittee indicated to the Station's management that no action should be taken on implementing fees for services.

Our review indicates that the Board of Control has taken positive action in assessing the implementation of fees for its services in accordance with Section 22-81, subsection (c) of the General Statutes. To that end, it has been determined that implementing fees would not be beneficial to either the State or the public at this time.

CONDITION OF RECORDS

Our audit of the Connecticut Agricultural Experiment Station records disclosed the following areas requiring improvement or comment, as discussed below:

Property Control:

Criteria: The State of Connecticut's Property Control Manual establishes the criteria for maintaining an inventory system and sets reporting requirements. The criteria include: properly tagging, recording, and accounting for equipment; maintaining a complete software library/inventory; and filing Annual Fixed Assets/Property Inventory Reports.

Condition: A list of new equipment purchases was maintained in the business office, however the new purchases were not tagged or added to the permanent inventory record until the end of each fiscal year. Controllable property, such as all computer printers, were not tagged and/or listed on the Agency's records. The Station does not have a complete listing of its computer software and has not completed a physical inventory of all software and related documentation. A complete software library has not been established.

The Station reported a value of \$13,482 for fine arts on its Annual Fixed Assets/Property Inventory Report. There is no documentation or appraisals on hand to support this reported value.

The Annual Fixed Assets/Property Inventory Reports due August 1, 1999 and 2000 were filed 39 and 91 days late, respectively.

Cause: The causes were not determined.

Effect: The above conditions could lead to the possible loss of assets going undetected and/or the use of unauthorized software.

Recommendation: The Station should comply with the requirements set forth in the State of Connecticut's Property Control Manual. (See Recommendation 1)

Agency Response: "The Connecticut Agricultural Experiment Station will tag all new equipment in a timely manner. All agency controllable inventory items will be tagged. A central software library will be created and Fine Art will be appraised and value updated. The annual inventory report (CO-59) will be filed by the revised October 1st deadline each year."

Express Delivery Services:

Criteria: The personal use of State resources is an inappropriate and unallowable practice. Agency management is responsible to ensure that services paid for with State funds are appropriate and any reimbursements due are promptly collected and deposited.

Condition: Our review found 62 instances that totaled approximately \$500, during the period July 27, 1998 through March 31, 2001, where vendor billings included charges for the personal use of express delivery services. Employees were allowed to use State-contracted express delivery services to send personal letters and packages but were required to reimburse the Station for the cost of those services.

Employee reimbursements were due upon receipt of the invoice that included the personal charges. The reimbursements were to be deposited into the petty cash fund and the invoice paid with a petty cash check. Our review found that most of the invoices that included personal charges, during the period November 1999 through March 2001, were processed through the State Comptroller's accounts payable process and not paid with a petty cash check. We could not determine when each personal charge was actually reimbursed by an employee, however we did note that occasionally a petty cash deposit of reimbursements was made and a petty cash check was used to pay other express delivery bills.

As of June 14, 2001, there was \$133 in cash being held in the business office safe that represented employee reimbursements collected for personal delivery services charged between September 2000 and March 2001. Due to a lack of Agency documentation, we could not determine the details that make up the above amount.

Cause: This was an established practice at the Station, the origin of which could not be determined.

Effect: The above practice resulted in the improper personal use of State-contracted services and a lack of accountability over the reimbursement process that could lead to undetected losses.

Recommendation: The Station should improve its internal controls and not allow the personal use of State resources. (See Recommendation 2)

Agency Response: "The Experiment Station issued a memorandum to staff members on May 31, 2001, prohibiting the use of state delivery contracts to send personal packages. Reimbursement was required and received for all personal packages mailed. We have reviewed internal controls to ensure all transactions are properly documented and State resources are used for State purposes only."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Station should continue its efforts to bring the equipment inventory records up-to-date and maintain them in accordance with the State of Connecticut's Property Control Manual – the Agency has established an inventory and a historical value for its library books and journals. The total value is included on the State Comptroller's annual inventory report. Efforts have been made to bring inventory records up-to-date, however, we noted some continuing deficiencies. This recommendation is being modified and repeated as Recommendation 1.
- The financial activity of all of the Research Donation Funds should be reported on the annual GAAP report as required by the State Comptroller – The agency reported the balances of all its Research Donation Funds on the GAAP report. This recommendation has been implemented and will not be repeated.

Current Audit Recommendations:

1. The Station should comply with the requirements set forth in the State of Connecticut's Property Control Manual.

Comment:

New equipment purchases were not tagged and added to the permanent inventory record until the end of each fiscal year. The Station does not have a complete listing of its computer software and has not completed physical inventory of its software. A complete software library has not been established. Also, annual reports were filed late.

2. The Station should improve its internal controls and not allow the personal use of State resources.

Comment:

The Station allowed its employees to send personal packages and letters using the State's express delivery services. Although employee reimbursements were required, controls and documentation over the reimbursement process were inadequate.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 1999 and 2000, are included as 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-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Connecticut Agricultural Experiment Station complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of test to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut Agricultural Experiment Station is the responsibility of the Connecticut Agricultural Experiment Station's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our test disclosed no instances of noncompliance that are required to be reported herein under auditing standards generally accepted in the United States of America.

We did, however, note certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records" and "Recommendations" sections of this report. Such instances are contained in our comments on property control.

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

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

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgement, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions:

- The lack of the timely tagging and recording of capitalized equipment and controllable property and incomplete software inventories/libraries
- The use of State-contracted services by employees for personal use and lack of controls over the reimbursement of costs for those services

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe that the reportable condition regarding the lack of timely tagging and recording of equipment inventory and incomplete software inventories/libraries to be a material or significant weakness.

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

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

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representative by the officials and personnel of the Connecticut Agricultural Experiment Station during the course of our examination.

Virginia A. Spencer
Principal Auditor

Approved:

Robert G. Jaekle
Auditor of Public Accounts

Kevin P. Johnston
Auditor of Public Accounts