

STATE OF CONNECTICUT

**AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL
EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
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**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the financial records of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 2001 and 2002. 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 Connecticut Agricultural Experiment Station's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Connecticut Agricultural Experiment Station's internal control structure policies and procedures established to ensure such compliance.

We have relied on the financial audit of the Connecticut Agricultural Experiment Station's fiduciary funds' investment activity conducted by the Station Board of Control's independent public accountants covering the fiscal years ended June 30, 2001 and 2002, 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.

John F. Anderson continued to serve 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, 2002, the following were members:

- Shirley Ferris, Commissioner of Agriculture
- Stephen Dellaporta
- 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

Richard H. Bowerman also served on the board until June 2001. Commissioner Ferris resigned as of March 1, 2003 and Mr. Bruce Gresczyk became Acting Commissioner and a member of the Board of Control on March 7, 2003.

RÉSUMÉ OF OPERATIONS:

General Fund receipts totaled \$2,741,853 and \$3,209,946 for the fiscal years ended June 30, 2001 and 2002, respectively. General Fund receipts for the fiscal year ended June 30, 2000 totaled \$2,898,989. A comparison of General Fund receipts is summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Miscellaneous revenues	4,037	3,859	3,789
Refunds of expenditures	7,987	6,870	158,898
Restricted Contributions:			
Other than Federal	303,778	125,129	255,260
Federal	<u>2,583,187</u>	<u>2,605,995</u>	<u>2,791,999</u>
Total General Fund Receipts	<u>\$2,898,989</u>	<u>\$2,741,853</u>	<u>\$3,209,946</u>

General Fund revenues decreased five percent and increased 17 percent for the fiscal years ended June 30, 2001 and 2002, respectively. Federal grants for research programs accounted for 95 percent and 87 percent of the Station's General Fund receipts for the fiscal years ended June 30, 2001 and 2002, respectively. The large increase in refunds of expenditures in fiscal year 2002

was primarily due to the return of funds from two sub-grantees. The increase in ‘Other than Federal’ restricted contributions in fiscal year 2002 was due to the establishment of the Lyme Disease and Control of Tick research accounts and increased donations from individuals and businesses to the Scientist Industry accounts.

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

	<u>Fiscal Year Ended June 30,</u>	
	<u>2001</u>	<u>2002</u>
Special Revenue Funds:		
Inter Agency/Intra-Agency Grants (1169)	<u>\$236,000</u>	<u>\$73,203</u>

The projects administered by the Station included chemistry and office renovations, and re-roofing projects.

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, 2000, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
General Fund:			
Budgeted Accounts:			
Personal services	\$4,762,932	\$4,977,069	\$5,295,950
Contractual services	357,913	409,041	387,146
Commodities	188,665	194,539	205,247
Sundry Charges	0	0	109,000
Capital outlay	281,375	94,474	89,394
Buildings and Improvement	<u>1,635</u>	<u>45,293</u>	<u>0</u>
Total Budgeted Accounts	<u>5,592,520</u>	<u>5,720,416</u>	<u>6,086,737</u>
Restricted Accounts:			
Other than Federal	155,866	137,240	257,553
Federal	<u>2,174,784</u>	<u>2,447,033</u>	<u>2,645,027</u>
Total Restricted Accounts	<u>2,330,650</u>	<u>2,584,273</u>	<u>2,902,580</u>
Total General Fund	<u>\$7,923,170</u>	<u>\$8,304,689</u>	<u>\$8,989,317</u>
Other Fund Expenditures:			
Special Revenue Funds (1169)	86,200	71,405	259,979
Capital Equipment Purchase Fund (1872)	170,270	57,660	40,505
Total Expenditures	<u>\$8,179,640</u>	<u>\$8,433,754</u>	<u>\$9,289,801</u>

General Fund expenditures increased 4.8 percent and 8.2 percent in the fiscal years ended June 30, 2001 and 2002, respectively. The largest increases were in personal services and Federal restricted accounts. The increases in budgeted accounts were primarily in personal services that resulted from collective bargaining and annual pay increases, and increases in part-time and temporary help. Also, in the 2001-2002 fiscal year, a service transfer of \$109,000 was made to the Department of Public Works in connection with the construction of the Bio-Safety Level 3 mosquito virus laboratory within the new Johnson/Horsfall Building.

General Fund Restricted Account increases resulted from collective bargaining increases, and the hiring of durational assistants and Post Doctoral scientists 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's Board of Control 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 \$9,271,221 and \$8,346,272 for fiscal years ended June 30, 2001 and 2002, respectively. The combined assets of the Research funds for the same periods totaled \$3,131,362 and \$2,772,820, respectively.

A portion, over \$2,500,000, of the funds is being added to State Capital Project funds to help pay for the new Johnson-Horsfall Building Addition/Renovation project that will house new biochemistry laboratories.

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 Experiment Station Associates, Inc. participation and monetary support to the Station is very limited. The Foundation paid for informational brochures and provided volunteers for some of the Station's annual events during the audited period.

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, 2001 and issued an unqualified opinion. In addition, the Foundation submitted year-end financial statements for the years ended December 31, 2000 and 2002. Additional comments on the Foundation's financial statements are made in the 'Condition of Records' and 'Recommendations' sections of this report.

CONDITION OF RECORDS

Our audit of the Connecticut Agricultural Experiment Station records disclosed the following areas requiring improvement or comment.

Experiment Station Associates, Inc.:

Criteria: Sections 4-37f through 4-37k of the General Statutes establish financial recordkeeping and reporting requirements for State agencies and foundations. Those requirements include that for each year in which an outside independent audit is not required the foundation must submit to the State agency's executive authority copies of year-end financial statements. The financial statements must be prepared in compliance with generally accepted accounting principles.

Condition: Our review of the Experiment Station Associates, Inc.'s annual financial statements submitted to the Station's Director indicated a minor error in the figures carried forward from the independent audit reports dated December 31, 1998 and December 31, 2001 to the un-audited financial statements submitted and dated December 31, 1999 and December 31, 2002, respectively. The un-audited financial statements did not comply with generally accepted accounting principles. Deficiencies included inadequate statement headings, inconsistent terminology and nonconforming formats. The Station's management did not adequately review, question or follow through with the foundation officers to ensure that the un-audited year-end financial statements fully complied with the statutory requirements.

Cause: The causes were not determined.

Effect: Although the foundation's financial resources are immaterial in dollar value, financial statements that are not prepared in compliance with Statutory requirements and the lack of adequate management review could result in problems or issues not being recognized in a timely manner.

Recommendation: The Connecticut Agricultural Experiment Station's management should properly monitor and require the foundation to comply with statutory financial reporting requirements. (See Recommendation 1)

Agency Response: "The Connecticut Agricultural Experiment has discussed the financial statements with the Experiment Station Associates. Future statements will comply with Generally Accepted Accounting Principals (GAAP). The Experiment Station's Chief of Services and Director will review future financial statements for conformance, accuracy and potential problems."

Late Deposits:

- Criteria:* Section 4-32 of the Connecticut General Statutes requires that receipts of \$500 or more be deposited and accounted for within 24 hours. Individual receipts under \$500 may be held until the total sum of all receipts reaches \$500, however individual receipts may not held for longer than seven calendar days before being deposited and accounted for.
- Condition:* Our testing of 15 deposits included 19 individual receipts. One check totaling \$3,648 was deposited late by two business days. Another check totaling \$300 was deposited ten calendar days after receipt, making it 3 calendar days late.
- Cause:* The Station's Valley Laboratory in Windsor did not promptly forward their receipts to the business office to be deposited.
- Effect:* The late deposits indicate violations of Section 4-32 of the General Statutes and a lack of prompt depositing could result in receipts being lost or stolen.
- Recommendation:* The Connecticut Agricultural Experiment Station should comply with Section 4-32 of the General Statutes. (See Recommendation 2)
- Agency Response:* "The Connecticut Agricultural Experiment Station has informed satellite offices that receipts must be forwarded to the business office immediately. We will ensure that all receipts of \$500 or more are deposited within 24 hours, and receipts totaling under \$500 are deposited within seven (7) calendar days per statutory requirements. "

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Station should comply with the requirements set forth in the State of Connecticut's Property Control Manual – Our current review indicates that new items are tagged in a more timely manner, annual reports were filed on time, appraisals for artwork were updated and although software inventory is not in full compliance with the requirements the Station has taken steps and continues to make major improvements to ensure adequate accountability and inventory over its software. This recommendation will not be repeated.
- The Station should improve its internal controls and not allow the personal use of State resources – Our current review shows controls have been implemented so that employees are no longer allowed to use the State's contracted express delivery services and then reimburse the petty cash fund for the charges. This recommendation has been implemented and will not be repeated.

Current Audit Recommendations:

- 1. The Connecticut Agricultural Experiment Station's management should properly monitor and require the foundation to comply with statutory financial reporting requirements.**

Comment:

Foundation statements were not in compliance with generally accepted accounting principles, included minor errors, and were not properly reviewed by Station management.

- 2. The Connecticut Agricultural Experiment Station should comply with Section 4-32 of the General Statutes.**

Comment:

A test of receipts indicated that two checks were deposited two business days and three calendar days late, respectively. Receipts received from the Valley Laboratory location were not forwarded to the business office in New Haven in a timely manner, resulting in non-compliance with Section 4-32 of the General Statutes.

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, 2001 and 2002. 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, 2001 and 2002, 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 generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 tests 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, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the 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 finding represents a reportable condition: the lack of timely deposits.

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

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