

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
THE CONNECTICUT AGRICULTURAL  
EXPERIMENT STATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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February 16, 2006

**AUDITORS' REPORT**  
**THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

We have examined the financial records of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 2003 and 2004. 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, 2003 and 2004, 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.

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. Dr. Anderson stepped down as Director on November 12, 2004, and Dr. Louis Magnarelli was appointed the new Director.

**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, 2004, the following were members:

Bruce Gresczyk, Acting Commissioner of Agriculture  
Stephen Dellaporta  
Norma O'Leary  
John Lyman III  
Dr. Donald B. Oliver  
Leon J. Zapadka  
Governor M. Jodi Rell, ex officio  
Dr. John F. Anderson, ex officio

Commissioner Shirley Ferris also served during the audited period.

**RÉSUMÉ OF OPERATIONS:**

The Station's operations, both revenues and expenditures were accounted for within the General Fund through the fiscal year ended June 30, 2003.

Public Act 04-02 of the May Special Session authorized the establishment of two new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, as a result of the implementation of a new State Accounting system and Public Act 04-02, the State Comptroller established a new Special Revenue Fund entitled "Federal and Other Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as restricted contributions and accounts.

**General Fund:**

General Fund receipts totaled \$3,045,700 and \$1,208 for the fiscal years ended June 30, 2003 and 2004, respectively, as compared with \$3,209,946 for the fiscal year ended June 30, 2002. A comparison of General Fund receipts is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Miscellaneous revenues	\$ 3,789	3,806	1,208
Refunds of expenditures	158,898	13,737	-
Restricted contributions:			
Other than Federal	255,260	280,093	-
Federal	<u>2,791,999</u>	<u>2,748,064</u>	<u>-</u>
Total General Fund Receipts	<u>\$3,209,946</u>	<u>\$3,045,700</u>	<u>\$1,208</u>

The decrease of \$3,044,492 from the fiscal year ended June 30, 2003, to the fiscal year ended June 30, 2004, was due to the change in accounting procedures resulting from the implementation of the new State accounting system, as explained above. Federal grants for research projects accounted for 90 percent of the Station’s receipts. Grants included monies for West Nile Virus and Lyme Disease research projects. See additional comments on receipts in the “Special Revenue Funds – Federal and Other Restricted Accounts” section of this report.

A comparison of expenditures, as reported by the State Comptroller, within the General Fund for the audited period and the fiscal year ended June 30, 2002, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
General Fund:			
Budgeted Accounts			
Personal services	\$5,295,950	\$5,159,247	\$4,782,166
Contractual services	387,146	385,919	353,245
Commodities	205,247	178,740	150,564
Sundry charges	109,000	-	168
Equipment	89,394	7,469	332
Buildings and improvements	-	-	70
Restricted Accounts:			
Federal and other restricted	<u>2,902,580</u>	<u>3,574,917</u>	<u>-</u>
Total General Fund Expenditures	<u>\$8,989,317</u>	<u>\$9,306,292</u>	<u>\$5,286,545</u>

General Fund expenditures increased three percent and decreased 43 percent in the fiscal years ended June 30, 2003 and 2004, respectively. The increase of expenditures in the 2002-2003 fiscal year was primarily due to the transfer of indirect overhead attributable to the administration of grants and a transfer payment of \$330,121 due to the Department of Public Works for the Station’s Johnson/Horsfall Building project. The \$4,019,747 decrease in expenditures in the 2003-2004 fiscal year was primarily due to the new Core-CT accounting system change. The change resulted in \$3,102,856 of expenditures being recorded in the Special Revenue Fund instead of the General Fund. In addition, the decrease also reflected a reduction in personal services relating to the layoff of seven employees in January 2003 and six employees who left as part of the early retirement incentive plan; no transfers of indirect costs attributable to the administration of grants; and the end of several Federal grant projects.

**Special Revenue Funds – Federal and Other Restricted Accounts:**

As previously explained, beginning with the 2003-2004 fiscal year, restricted accounts that had previously been reported in the General Fund were now being reported by the Comptroller in a newly established Special Revenue Fund. The Station’s Federal and other restricted grant funds receipts, as recorded by the State Comptroller, totaled \$2,880,362 for the fiscal year ended June 30, 2004. These receipts were primarily from Federal grants for the various research projects conducted by the Station. Receipts decreased slightly in the 2003-2004 fiscal year due to the expiration of several Federal grants, including one for the prevention of tick borne diseases.

Expenditures of this Account, as recorded by the State Comptroller for the fiscal year ended June 30, 2004, totaled \$3,102,856. A summary of these expenditures is presented below:

	<u><b>Fiscal Year Ended</b></u> <u><b>June 30, 2004</b></u>
Personal services	\$1,415,305
Contractual services	293,239
Commodities	560,355
Sundry charges	763,199
Equipment	<u>70,758</u>
Total Special Revenue Fund Expenditures	<u><b>\$3,102,856</b></u>

As shown above, the Federal and Other Restricted Accounts Fund is used to record expenditures relating to Federal grants, including personal services and fringe benefits of staff working on grant projects, dues and subscriptions to scientific publications, office and scientific supplies and equipment and transfers of funding to other universities or State agencies that are subcontractors on Federal grants.

In addition to the above Special Revenue Fund, the Station also processed expenditures during the audited period from the following Special Revenue Funds:

	<u><b>Fiscal Year Ended June 30,</b></u>		
	<u><b>2002</b></u>	<u><b>2003</b></u>	<u><b>2004</b></u>
Other Special Revenues Funds:			
Inter Agency/Intra-Agency Grants	\$259,979	\$70,203	-
Capital Equipment Purchase Fund	\$40,505	\$230,701	\$29,785

The Station also distributed \$10,000 during the 2002-2003 fiscal year from the Pending Receipts Fund for monies that the Station previously could not determine a proper distribution.

**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

\$8,674,515, and \$9,438,149 for fiscal years ended June 30, 2003 and 2004, respectively. The combined assets of the Research funds for the same periods totaled \$2,683,742 and \$2,992,357, respectively.

The Station has a contingent liability of \$2,000,000 in designated Trustee funds that was part of an agreement with the State. This amount will be transferred upon the completion of the project to the State Capital Project fund to help defray the cost of the new Johnson-Horsfall Building Addition/Renovation project that houses 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 fiscal year ended December 31, 2002, and issued an unqualified opinion. In addition, the Foundation submitted unaudited financial statements for the fiscal year ended December 31, 2003. 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 (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 establishes financial record keeping 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 its year-end financial statements. Furthermore, the financial statements must be prepared in compliance with generally accepted accounting principles.

*Condition:* Our review of the Experiment Station Associates, Inc.'s unaudited financial statements for the fiscal years ended December 31, 2003 and 2004, revealed that the statements did not comply with generally accepted accounting principles. The deficiencies included inconsistent net gain or (loss) figures presented on the statements, addition errors on supporting documentation, and the preparation of the statements on a modified cash basis instead of on an accrual basis. After the prior audit, the Station's management did require the Foundation to submit corrected statements for the fiscal year ended December 31, 2002. However, management did not adequately monitor the financial statements for the fiscal years ended December 31, 2003 and 2004, to ensure that the submitted statements complied with the statutory requirements.

*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.

*Cause:* The causes were not determined.

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

*Agency Response:* "The Connecticut Agricultural Experiment Station has met with and discussed the required financial statements with the Experiment Station Associates' President and newly appointed Treasurer. Future statements will comply with generally accepted accounting principals. The Experiments Station's Chief of Services and Director will review financial statements for conformance and accuracy."

**Receipt Issues:**

*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 combined sum of all receipts totals \$500. However, individual receipts may not be held for more than seven calendar days before being deposited and accounted for. A receipts journal should be maintained and consist of pertinent information, including the actual date each receipt was received. If the disposition of the monies cannot be determined at the time of receipt, then the monies should be promptly deposited into the Pending Receipts Fund until the final disposition can be determined.

*Condition:* Receipts are received at both the New Haven business office location and the Station's Valley Laboratory location. The Valley Laboratory sends its receipts to the New Haven business office to be deposited. A complete receipts log is not maintained at either location and attached receipt documentation is not date stamped. Our test of deposits to backup documentation revealed that checks were dated from one day to more than a month prior to the actual date the deposit was made. Receipts from corporate donations for research projects and scientist speaking fees appeared to have the oldest check dates prior to being deposited. In many cases there is no way to accurately determine the actual date a receipt was received and whether the statutory requirement concerning timely deposits is being met.

*Effect:* Late deposits would indicate violations of Section 4-32 of the General Statutes and a lack of prompt depositing could result in receipts being lost or stolen.

*Cause:* The Valley Laboratory does not promptly forward receipts to the business office to be deposited. Other causes were not determined.

*Recommendation:* The Connecticut Agricultural Experiment Station should improve its internal controls over receipts to ensure compliance with Section 4-32 of the General Statutes. (See Recommendation 2)

*Agency Response:* "The Connecticut Agricultural Experiment Station will direct all staff, New Haven and Windsor, to forward all receipts 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. Additional internal controls will be implemented to track the date checks are received."

**Property Control and Annual Fixed Assets Report:**

*Criteria:* Section 4-36 of the General Statutes requires each State agency to establish and keep an inventory account in a form prescribed by the State Comptroller. The State's Property Control Manual requires that each State agency establish and maintain an adequate and accurate property control record system to provide for complete accountability and safeguarding of assets. This includes performing annual physical inventories to verify the existence and condition of inventory items and promptly tagging and adding pertinent information onto the agency's inventory records. An annual report of all capitalized real and personal property must be submitted to the Office of the State Comptroller in the prescribed format.

*Condition:* A test of nine new equipment items purchased during the audited period revealed that three of the items totaling \$7,958 were not tagged or included on the Station's inventory database. A physical inventory had not been taken during the audited period.

The three above-mentioned equipment items were not included in the Furnishings and Equipment (Capitalized) category additions column total that was reported on the agency's Annual Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO-59) as of June 30, 2004. The Station did not increase the present value of its buildings by the required one percent on the CO-59 report as of June 30, 2004. This resulted in a \$90,904 understatement. In addition, a boat valued at \$9,147 was included in the Furnishings and Equipment (Capitalized) category but should have been reported separately in the Boat category on the June 30, 2003 and 2004 reports. The adjusted reconciliation between the CO-59's ending total for the Furnishings and Equipment (Capitalized) category and the agency's inventory database total at June 30, 2004, was not clearly supported.

*Effect:* The above conditions indicate a weakness in controls that resulted in a misstatement of property values and fixed assets and could result in undetected losses.

*Cause:* In the past the agency reconciled the total of its new capital equipment purchases with year-end capital equipment expenditure reports received from the Office of the State Comptroller. With the inception of CORE-CT, the State Comptroller's reports were no longer available and no reconciliation was prepared to ensure that all new items had been properly tagged and added to the agency's inventory database. Causes for the other conditions were not determined.

*Recommendation:* The Connecticut Agricultural Experiment Station should strengthen its controls over fixed assets/inventory and the annual reporting of such assets. (See Recommendation 3)

*Agency Response:* “The Connecticut Agricultural Experiment Station will conduct a physical inventory in FY 2006. We have corrected the CO-59 (FY 2005) to include the 1% increase in the present value of buildings. The three equipment items that were not tagged in the transition to the new CORE-CT inventory system have been added to the Station inventory records. CORE-CT requires that tag numbers be assigned when vouchers are created, with the capital expenditure being posted to the general ledger, which will resolve many of the reconciliation issues.”

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- The Connecticut Agricultural Experiment Station's management should properly monitor and require the foundation to comply with statutory financial reporting requirements. Our current review indicates that there continued to be a problem with the preparation and monitoring of yearly financial statements. This recommendation will be repeated.
- The Connecticut Agricultural Experiment Station should comply with Section 4-32 of the General Statutes. Our current review revealed that the information available to test compliance was inadequate to determine how long receipts were held before being deposited. Our testing was limited due to the lack of complete receipt information. This recommendation will be revised and repeated.

### *Current Audit Recommendations:*

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

Comment:

Foundation statements were inadequately prepared and were not in compliance with generally accepted accounting principles. Management did not adequately review the statements to ensure compliance with the requirements.

- 2. The Connecticut Agricultural Experiment Station should improve its internal controls over receipts to ensure compliance with Section 4-32 of the General Statutes.**

Comment:

The Station did not maintain a receipts log for monies received at its Valley Laboratory location. Without adequate documentation we could not determine whether the Station fully complied with the statutory requirement that receipts be deposited in a timely manner.

- 3. The Connecticut Agricultural Experiment Station should strengthen its controls over fixed assets/inventory and the annual reporting of such assets.**

Comment:

Several new equipment purchases were not tagged or added to the Station's inventory records. In addition, we noted errors in the totals reported on the Station's Annual Fixed Assets/Property Inventory Report/GAAP Reporting Form. Also, there were no physical inventories performed during the audited period.

## **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, 2003 and 2004. 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, 2003 and 2004, 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 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, 2003 and 2004, 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 *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 findings represent reportable conditions: the lack of internal controls over the processing of receipts and the inadequate recording and reporting of equipment inventory.

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 conditions described above are not material or significant weaknesses.

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 representatives 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