

STATE OF CONNECTICUT



***AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 AND 2006***

AUDITORS OF PUBLIC ACCOUNTS

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September 10, 2007

AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2006

We have examined the financial records of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 2005 and 2006. 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, 2005 and 2006, 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 until November 12, 2004. Dr. Louis Magnarelli was appointed the new Director as of November 12, 2004, and continues to serve as the 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, 2006, the following were members:

F. Phillip Prelli, Commissioner of Agriculture
Stephen Dellaporta
Terry Jones
Norma O'Leary
Dr. Johan C. Varekamp
Leon J. Zapadka
Governor M. Jodi Rell, ex officio
Dr. Louis Magnarelli, ex officio

Acting Agriculture Commissioner Bruce Gresczyk, Dr. Donald Oliver, John Lyman III and Dr. John Anderson also served during the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts totaled \$8,639 and \$7,815 for the fiscal years ended June 30, 2005 and 2006, respectively, as compared with \$1,208 for the fiscal year ended June 30, 2004. General Fund receipts consisted primarily of money received from an employee occupied apartment at the Huntington Street location and miscellaneous revenues. The increase during the audited period was due to the apartment being occupied for the full year instead of a partial year in the fiscal year ended June 30, 2004.

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, 2004, is presented below:

	Fiscal Year Ended June 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund:			
Budgeted Accounts			
Personal services	\$4,782,166	\$5,195,985	\$5,561,034
Contractual services	353,245	392,937	538,145
Commodities	150,564	198,470	182,889
Sundry charges	168	329	0
Equipment	332	2,060	70,554
Buildings and improvements	70	13	-
Total General Fund Expenditures	<u>\$5,286,545</u>	<u>\$5,789,794</u>	<u>\$6,352,622</u>

General Fund expenditures increased nine and one-half percent in both the fiscal years ended June 30, 2005 and 2006, respectively. The increases in personal service accounts during the audited period were due to the full year's accrual relating to the hiring of five new scientists in the last quarter of the 2003-2004 fiscal year, increases in salaries provided in collective bargaining agreements and the first of three payments owed to participants of the 2003 Early Retirement Incentive Plan for unused vacation and sick leave. In addition, contractual services increased substantially in the 2005-2006 fiscal year due to large increases in the cost of electricity, fuel and other utility costs.

Special Revenue Fund – Federal and Other Restricted Accounts:

The Station's Special Revenue Fund receipts totaled \$3,925,701 and \$3,962,279 for the fiscal years ended June 30, 2005 and 2006, respectively, as compared with \$2,880,362 for the fiscal year ended June 30, 2004. These receipts were primarily from State and Federal grants for the various research projects conducted by the Station. The large increase during the 2004-2005 fiscal year consisted mainly of additions to the Forest Health Management, West Nile Virus and Hemlock Woolly Adelgid research grants.

A comparison of expenditures, as reported by the State Comptroller, within the Special Revenue Fund for the audited period and the fiscal year ended June 30, 2004, is presented below:

	Fiscal Year Ended June 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Personal services	\$1,415,305	\$1,625,454	\$1,684,739
Contractual services	293,239	514,335	456,043
Commodities	560,355	617,730	454,647
Sundry charges	763,199	928,036	929,463
Equipment	70,758	252,269	621,541
Total Special Revenue Fund Expenditures	<u>\$3,102,856</u>	<u>\$3,937,824</u>	<u>\$4,146,433</u>

The Special Revenue Fund expenditures increased 26.6 percent and five and one-half percent for the fiscal years ended June 30, 2005 and 2006, respectively. The increases in personal services were due to the hiring of additional staff to work on Federally funded programs and summer workers hired for the Mosquito Control Program. The increases in contractual services were due to increased fuel and postage costs. Also the increases in sundry charges in both years

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was due to the change in the way medical insurance costs were handled by the State Comptroller's Office from a percentage basis to an actual basis. The increase in equipment expenditures in the 2005-2006 fiscal year was due to the purchase of a gas spectrometer for the Food Safety Program at a cost of \$311,602.

In addition to the above Special Revenue Fund expenditures, the Station also processed expenditures during the audited period from the Capital Equipment Purchase Fund as follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital Equipment Purchase Fund	<u>\$29,785</u>	<u>\$245,159</u>	<u>\$284,015</u>

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 Fiduciary 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 \$9,948,351, and \$10,256,613 for fiscal years ended June 30, 2005 and 2006, respectively. The combined assets of the Fiduciary Research funds for the same periods totaled \$3,124,162 and \$1,298,923, respectively.

In February 2006, the Board of Control transferred \$2,000,000 from the Johnson-Osborne Invested Income Fund, upon the completion of the Johnson-Horsfall building construction/renovation project, to the State's Capital Project Fund. This amount was a commitment agreed to by the Board of Control to help defray the cost of the 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, 2004, and issued an unqualified opinion. In addition, the Foundation submitted unaudited financial statements for the fiscal year ended December 31, 2005. 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 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 its year-end financial statements that must be prepared in compliance with generally accepted accounting principles. Also, the agency's executive authority and chief financial official shall review any required independent audit report submitted by the foundation. A copy of the report along with a signed letter, stating that management had reviewed the report, must be forwarded to the Auditors of Public Accounts.

Condition: Our prior audit report noted numerous compliance and other errors on the Experiment Station Associates, Inc.'s (ESA) unaudited financial statements for the 2004 fiscal year. This finding resulted in the Station's management requiring ESA to resubmit corrected 2004 statements. Our current review of ESA's unaudited financial statements for the fiscal year ended December 31, 2005, revealed that the statements were inaccurate. We noted errors in both the carry-forward cash equivalent figure and the fiscal year 2005 year-end cash figure used on the statements. Although these errors were immaterial in dollar value, the errors affected the totals reported on both ESA's Statement of Financial Position, and Cash Flows Statement and resulted in the statements not being prepared in compliance with generally accepted accounting principles.

Station management did not review the financial statements submitted for the fiscal year ended December 31, 2005, to ensure that they did not contain obvious or reoccurring errors. Also Station management did not submit a letter to the Auditors of Public Accounts with the independent audit report for the fiscal year ended December 31, 2004, indicating that the management had reviewed the report.

Effect: Although ESA's financial resources are immaterial in dollar value, financial statements that are not accurately prepared and the lack of adequate management review could result in the misuse of funds or other problems not being recognized in a timely manner.

Cause: The causes were not determined.

Recommendation: The Connecticut Agricultural Experiment Station's management should properly review and require the Experiment Station Associates, Inc.

foundation to properly prepare its financial statements. (See Recommendation 1)

Agency Response: “The Connecticut Agricultural Experiment Station has discussed the financial statement requirements with the Experiment Station Associates’ Treasurer. The Experiment Station’s Chief of Services and Director will review financial statements periodically for statutory conformance and accuracy. We will ensure that financial statements are prepared in accordance with Generally Accepted Accounting Principals (GAAP). The agency will submit a letter to the Auditors of Public Accounts with future independent audits as required.”

Ethics Compliance Issues:

Criteria: Section 1-83, subsection (1)(a)(2), of the General Statutes requires that each State agency develop and implement an ethics statement as it relates to the mission of the agency. A copy of such ethics statement shall be filed with the Department of Administrative Services and with the Office of State Ethics.

Condition: During our review and discussions with Station management we became aware that no agency ethics statement had been developed or filed with either the Department of Administrative Services or the Office of State Ethics during the audited period. After our discussions, the Board of Control approved an agency ethics statement at its April 2007 meeting but did not submit the statement to the aforementioned agencies.

Effect: Noncompliance with the provisions of the General Statutes gives the appearance of a lack of commitment and does not help to ensure that the Station’s employees have a better understanding of management’s expectations as to its standards on ethical behavior.

Cause: The cause was not determined.

Recommendation: The Connecticut Agricultural Experiment Station should fully comply with Section 1-83 of the General Statutes concerning agency ethics statements. (See Recommendation 2)

Agency Response: “The Connecticut Agricultural Experiment Station has developed an agency ethics policy, approved by the Board of Control at its April 12, 2007 meeting. The policy has been distributed to all employees and was submitted to both the Department of Administrative Services and the Office of State Ethics on May 1, 2007. The policy has also been posted on the Station’s website. The Experiment Station had previously distributed the state-wide ethics policy to agency employees and understands the importance of having its own ethics policy.”

Asset Management/Inventory Report:

Criteria: The State of Connecticut Property Control Manual requires that each agency submit an annual report of all capitalized real and personal property to the Office of the State Comptroller in the prescribed format and based on annual physical inventories. Additions and deletions to the annual report should be properly documented. Beginning in fiscal year 2006, agencies should generate information used on the Asset Management/Inventory Report/GAAP Reporting Form (CO-59) from within the Core-CT system. Acquisition costs reported for buildings and land should include new construction and renovations/improvements costs. Data reported on the Joint Effort for State Inventory Reporting (JESTIR) system, Core-CT system and the CO-59 report should all be in agreement.

Condition: The Station added the \$8,644,600 cost of the new Johnson-Horsfall building addition to the CO-59 report for the 2004-2005 fiscal year, but did not include the addition to either its Core-CT system or the JESTIR system. We also noted that prior years of renovations totaling \$751,917 had not been added to the JESTIR system and are not reflected in the agency's Core-CT totals.

We noted that the "deletion" total reported on the CO-59 report in the 2005-2006 fiscal year was not adequately documented. One item for \$15,420 was reported as deleted although it was still being used. An additional \$177,046 was included as "deletions" after the renovation of the Johnson-Horsfall building and was an estimated number used to reconcile the inventory report to the documentation.

Effect: The above conditions resulted in a misstatement of building values and inventory items on the agencies permanent inventory reporting system. Without proper accountability, items could be lost or stolen and not be reported in a timely manner.

Cause: The Johnson-Horsfall building was completely gutted during renovation and some of the equipment items that were considered "built-ins" and very old items may have been thrown out prior to being properly accounted for. Other causes were not determined.

Recommendation: The Connecticut Agricultural Experiment Station should strengthen its controls and documentation over the annual reporting of its assets. (See Recommendation 3)

Agency Response: "The Connecticut Agricultural Experiment Station has made the necessary additions to the building values in both the JESTIR and Core-CT system to agree with the actual CO-59 reported totals. The agency's inventory has been completely transferred to the Core-CT system, a physical inventory has been conducted, and the Core-CT inventory is now reconciled and accurate."

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 although there has been some improvements, the unaudited statements continue to have some errors and Station management didn't adequately monitor the yearly financial statements. This recommendation will be repeated. (See Recommendation 1)
- The Connecticut Agricultural Experiment Station should comply with Section 4-32 of the General Statutes. Our current review revealed only minor exceptions to the depositing and posting of receipts. The Station has made major improvements in addressing timely deposits. This recommendation will not be repeated.
- The Connecticut Agricultural Experiment Station should strengthen its controls over fixed assets/inventory and the annual reporting of such assets. Our current review noted that improvements were made over the tagging of equipment and the performance of an annual physical inventory of fixed assets. There were still issues with some of the totals used in the preparation of the Annual Fixed Assets/Property Inventory Report. This recommendation will be modified and repeated. (See Recommendation 3)

Current Audit Recommendations:

- 1. The Connecticut Agricultural Experiment Station's management should properly review and require the Experiment Station Associates, Inc. foundation to properly prepare its financial statements.**

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 fully comply with Section 1-83 of the General Statutes concerning agency ethics statements.**

Comment:

The Station did not develop an agency ethics policy and submit it to the Department of Administrative Services or the Office of Ethics, as required.

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

Comment:

We noted errors in the totals reported on the Station's Annual Fixed Assets/Property Inventory Report/GAAP Reporting Form for building renovations and additions. The total reported as "deletions" on the report was not accurate.

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, 2005 and 2006. 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, 2005 and 2006, 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, 2005 and 2006, 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 inadequate reporting of equipment inventory on the annual report.

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 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