

STATE OF CONNECTICUT



*AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008*

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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April 13, 2009

**AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008**

We have examined the financial records of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 2007 and 2008. 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, 2007 and 2008, 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. Louis Magnarelli served as the Director throughout 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, 2008, 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

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts totaled \$10,450 and \$(900) for the fiscal years ended June 30, 2007 and 2008, respectively, as compared with \$7,815 for the fiscal year ended June 30, 2006. General Fund receipts consisted primarily of money received from an employee occupied apartment at the Huntington Street location and miscellaneous revenues. The decrease in the fiscal year ended June 30, 2008 was mainly due to a workers compensation check adjustment processed by the Office of the State Treasurer, which offset the collection of revenue from the employee occupied apartment and resulted in a negative receipt total for that year.

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, 2006, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund:			
Budgeted Accounts:			
Personal services	\$5,561,034	\$5,937,965	\$6,097,259
Contractual services	538,145	617,184	727,530
Commodities	182,889	153,174	229,011
Sundry charges	-	1,282	693
Equipment	70,554	4,242	-
Total General Fund Expenditures	<u>\$6,352,622</u>	<u>\$6,713,847</u>	<u>\$7,054,493</u>

General Fund expenditures increased approximately five and one-half percent and five percent during the fiscal years ended June 30, 2007 and 2008, respectively. The increase in personal services during the 2006-2007 fiscal year were primarily due to summer research assistants salaries previously charged to the Restricted Fund being charged to the General Fund, the addition of a part-time position, and additional leave payments relating to the retirement of two long time staff members. The increase in personnel services during the 2007-2008 fiscal year was mainly caused by the addition of another part-time position. The increases in contractual services during the audited period were 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 \$3,974,249 and \$3,874,469 for the fiscal years ended June 30, 2007 and 2008, respectively, as compared with \$3,962,279 for the fiscal year ended June 30, 2006. These receipts were primarily from State and Federal grants for the various research projects conducted by the Station. The decrease during the 2007-2008 fiscal year is attributable to a reduction in the amount of Federal grant money received for research on Lyme Disease and the West Nile Virus Surveillance and Pesticide Analysis programs, and also the expiration of the Lyme Disease research grant.

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, 2006, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Personal services	\$1,685,057	\$1,658,599	\$1,632,072
Contractual services	456,043	380,991	518,339
Commodities	454,647	526,136	498,759
Revenue Refunds	-	-	1,298
Sundry charges	929,145	879,742	921,672
Equipment	<u>621,541</u>	<u>233,452</u>	<u>82,295</u>
Total Special Revenue Fund Expenditures	<u>\$4,146,433</u>	<u>\$3,678,920</u>	<u>\$3,654,435</u>

The Special Revenue Fund expenditures decreased 11.3 percent and less than one percent for the fiscal years ended June 30, 2007 and 2008, respectively. The main decreases during the 2006-2007 fiscal year were in the areas of contractual services and equipment. The decrease in contractual services was mainly due to decreases in subscription and laboratory services, and testing costs. The decrease in equipment charges was mainly attributed to several large purchases made by the Analytical Chemistry department during the 2005-2006 fiscal year, that were not repeated in the following years.

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>2006</u>	<u>2007</u>	<u>2008</u>
Capital Equipment Purchase Fund	<u>\$284,015</u>	<u>\$155,070</u>	<u>\$169,697</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 \$11,406,110 and \$9,833,191 for fiscal years ended June 30, 2007 and 2008, respectively. The combined assets of the Fiduciary Research funds for the same periods totaled \$1,572,762 and \$1,145,200, 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 Experiment Station Associates, Inc.'s 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 public accounting firm performed an audit of the Foundation's books for the fiscal year ended December 31, 2007, and issued an unqualified opinion. The Foundation did not submit unaudited financial statements for the fiscal year ended December 31, 2006. Additional comments on the Foundation's financial statements are made in the 'Condition of Records' and 'Recommendations' sections of this report.

Connecticut Agricultural Experiment Station Research Foundation, Inc:

The Connecticut Agricultural Experiment Station Research Foundation, Inc. (Research Foundation) was established in June 2007 as a tax-exempt 501 (c) (3) non-profit organization. Its main purpose is to support the on-going and new research of the Connecticut Agricultural Experiment Station's scientists. The Research Foundation provides individuals, industry associations and philanthropic organizations the opportunity to contribute to the Connecticut Agricultural Experiment Station's research and public services.

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: The prior audit noted numerous compliance and other errors on the Experiment Station Associates, Inc.'s (ESA) unaudited financial statements and the Station management's lack of review of these statements.

During the current audit, we were informed that ESA did not prepare any financial statements for the fiscal year ended December 31, 2006, as required. The ESA provided the Station's management with a cash receipts and disbursements ledger that could be used as the framework for such financial statements; however, ESA did not prepare or submit actual year-end financial statements to the Station's management. Station management did not pursue requesting the missing financial statements from the ESA.

We did note that an independent audit report was prepared for fiscal year ended December 31, 2007. We did not find any documentation that Station's management reviewed the report or submitted a letter to the Auditors of Public Accounts with the independent audit report for the fiscal year ended December 31, 2007, as required.

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

Cause: The causes were not determined.

Recommendation: The Experiment Station Associates, Inc. and the Connecticut Agricultural Experiment Station should comply with all the requirements of Sections 4-37f through 4-37k of the General Statutes relating to foundations. (See Recommendation 1)

Agency Response: “The Experiment Station Associates, Inc. has agreed to prepare annual financial statements in addition to the revenue and expenditure journals currently provided. The Connecticut Agricultural Experiment Station will require and review such statements. Audit reports for the foundation will be reviewed by the agency and a copy will be sent to the Auditors of Public Accounts.”

Deposit/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.

Section 7.2 of the State Accounting Manual describes internal control procedures over cash receipts. Specifically, it states that it is advisable to date-stamp the correspondence or documentation that accompanies a receipt; such a stamp should be helpful, especially if moneys received should become separated from the documents. Without a date-stamp, it is difficult to determine the actual date of receipt.

Sound internal controls in the area of receipts would require that checks be payable directly to the Station rather than to the scientists employed by the Station.

Condition: Our test of 20 deposits which included 42 individual receipts and totaled \$855,697 revealed the following:

Two receipts, totaling \$177, were deposited two days late. We could not verify the receipt date or timeliness of deposit for 11 receipts, totaling \$9,474, because supporting documentation was not date-stamped.

Three out of 20 deposits, totaling \$35,536, were not accounted for within the Core-CT records in a timely manner; the time delay ranged from six to ten days.

Also, four checks totaling \$650, were made payable directly to a scientist employed by the Station, rather than payable directly to the Station.

Effect: In addition to non-compliance with Section 4-32 of the General Statutes, late deposits and late accounting for deposits may result in receipts being lost or stolen. Without a date-stamp on supporting documentation, it can not be determined whether Station receipts were deposited in a timely manner.

Checks made payable directly to Station employees could result in a loss or misuse of State funds.

Cause: We were informed by Station personnel that deposits are not always available for posting/accounting in the Core-CT system the day after the actual deposit is made. Other causes were not determined.

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

Agency Response: “The Connecticut Agricultural Experiment Station has instituted a policy of date stamping all check documentation when received and the check is entered into a receipts journal to document the date received. All deposits will be made in a timely manner and in accordance with Section 4-32 of the Connecticut General Statutes. Deposits will be processed in the Core-CT system timely. Scientists will no longer be able to receive checks made out to them personally and sign them over to the agency for miscellaneous research projects.”

Asset Management and Annual Fixed Assets Report:

Criteria: Section 4-36 of the Connecticut 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 (The Manual) establishes the standards for maintaining an inventory system and sets reporting requirements. These requirements include: properly tagging, recording and accounting for equipment, procedures for equipment on loan, and filing accurate Asset Management/Fixed Assets/Property Inventory Reports (CO-59 report). The Manual states that if an item is considered to be a built-in (i.e. a permanent fixture) then the cost of that item should be included with the cost of the building on the CO-59 report. The Core-CT Asset Management module is used to maintain the Station’s permanent inventory records. For CO-59 report purposes, only capitalized equipment over \$1,000 are included on the report.

Condition: Some of the issues noted during the course of our review of the Station’s property control records included the following:

- A physical inspection of 15 items found that one item was loaned out to a Station employee. Further review revealed that other equipment has been loaned out to other Station employees in the past; however, management has not established procedures relating to loaned equipment nor required any employee to use sign-out forms.
- The Station does not tag certain laboratory furniture or any other items that would be considered a built-in. However, the cost of these items has not been added to the cost of the buildings. The

Station also has several pieces of office furniture that are valued over the \$1,000 threshold and are not being tagged or reported on the CO-59 report.

- Several capitalized items totaling \$35,196 were reported on the CO-59 report as deletions and listed as “disposed” in the Core-CT Asset Management module; however, the Station was not able to provide the supporting documentation that would indicate that these items were either properly disposed of or reported as lost or stolen. We also found numerous controllable items, totaling \$13,791, which were listed as “disposed” in Core-CT but did not have the proper documentation to support their disposal.
- The Station determined that one item valued at \$335, was stolen; however, a loss report was not filed with the Office of the State Comptroller or the Auditors of Public Accounts, as required.
- A review of the Summary Motor Vehicle Report revealed that the Station did not separately tag two trailers. In Core-CT, the cost of these trailers was included with the cost of two boats; however, only two tag numbers were used for these four items.
- All seven paintings owned by the Station are reported with an inaccurate asset type category in the Core-CT system. These painting have an asset category of “Equipment” but should be labeled as “Art”.

Effect: Equipment on loan to Station employees or disposed of without following proper procedures could result in the misuse of State equipment. The lack of properly tagging and accounting of furniture or equipment could result in the misstatement of property values on the CO-59 report.

Cause: The causes were not determined.

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

Agency Response: “The Connecticut Agricultural Experiment Station will take the necessary action to correct fixed asset deficiencies. A procedure and form will be developed to document agency assets being loaned and taken off-premise, for State business, by staff members; office furniture with a value of \$1,000 will be tagged and added to the agency inventory; proper documentation will be maintained for all disposed assets; a loss report will be completed for any asset reported stolen; a separate inventory tag number will be placed on agency boats and associated trailers; and the seven agency paintings (fine art) will be reclassified in the Core-CT inventory system from “equipment” to “art”.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Connecticut Agricultural Experiment Station's management should properly review and require the Experiment Station Associates, Inc. foundation to properly prepare its financial statements. Our current review revealed that unaudited statements were not prepared for the calendar year ended December 31, 2006, and a copy of the independent audit report for the calendar year ended December 31, 2007, with indication of review, was not submitted to the Auditors of Public Accounts. This recommendation will be modified and repeated. (See Recommendation 1)
- The Connecticut Agricultural Experiment Station should fully comply with Section 1-83 of the General Statutes concerning agency ethics statement. This recommendation has been satisfied and will not be repeated.
- The Connecticut Agricultural Experiment Station should strengthen its controls and documentation over the annual reporting of its assets. Our current review noted that there were still some issues with the support documentation used to prepare the annual fixed assets report. We also found several new issues in this area. This recommendation will be modified and repeated. (See Recommendation 3)

Current Audit Recommendations:

- 1. The Experiment Station Associates, Inc. and the Connecticut Agricultural Experiment Station should comply with all the requirements of Sections 4-37f through 4-37k of the General Statutes relating to foundations.**

Comment:

Foundation statements were not prepared for December 31, 2006. An independent audit report was prepared for December 31, 2007; however, this report was not filed with the Auditors of Public Accounts.

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

Comment:

Our audit revealed late deposits and late accounting for deposits. We also noted several receipts that were not date-stamped; therefore, we could not determine the actual date of receipt. Lastly, we found checks that were made payable directly to Station scientists, rather than to the Station.

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

Comment:

We noted that the Station does not have a policy in place for equipment on loan. In addition, all furniture valued over \$1,000 was not tagged; some items disposed of were not supported with documentation; a loss report was not filed for a stolen item; trailers attached to two boats were not separately tagged, and fine art was classified incorrectly in Core-CT.

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, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2007 and 2008, are included as a 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Connecticut Agricultural Experiment Station's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with

management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 – Experiment Station Associates, Inc.; Recommendation 2 – Deposit / Receipt Issues; Recommendation 3 – Asset Management and Annual Fixed Asset Report.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Connecticut Agricultural Experiment Station complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

The Connecticut Agricultural Experiment Station's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Connecticut Agricultural Experiment Station's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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.

Stephanie Novello
Associate Auditor

Approved:

Robert G. Jaekle
Auditor of Public Accounts

Kevin P. Johnston
Auditor of Public Accounts