

STATE OF CONNECTICUT



*AUDITORS' REPORT
THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010*

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT M. WARD

December 16, 2011

AUDITORS' REPORT THE CONNECTICUT AGRICULTURAL EXPERIMENT STATION FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

We have examined the financial records of the Connecticut Agricultural Experiment Station for the fiscal years ended June 30, 2009 and 2010. 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 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, 2009 and 2010, 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. Louis A. 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, 2010, the following were members:

- F. Philip Prelli, Commissioner of Agriculture
- Stephen L. Dellaporta
- Terry Jones
- Norma O'Leary
- Dr. Johan C. Varekamp
- Paul C. Larson
- Governor M. Jodi Rell, ex officio
- Dr. Louis A. Magnarelli, ex officio

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts totaled \$11,635 and \$11,020 for the fiscal years ended June 30, 2009 and 2010, respectively, as compared with \$(900) for the fiscal year ended June 30, 2008. General Fund receipts consisted primarily of money received from an employee occupied apartment at the Huntington Street, New Haven location and miscellaneous revenues.

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, 2008, is presented below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund:			
Budgeted Accounts:			
Personal Services	\$6,097,259	\$6,389,189	\$5,653,429
Contractual Services	727,530	624,986	760,785
Commodities	229,011	60,627	74,572
Sundry Charges	693	0	0
Equipment	0	0	6,228
Total General Fund Expenditures	<u>\$7,054,493</u>	<u>\$7,074,802</u>	<u>\$6,495,014</u>

Total General Fund expenditures decreased by \$559,479, or eight percent, during the audited period. Personal Services and Contractual Services accounted for the majority of expenditures during the audited period.

Decreases in personal services costs were the result of a decrease of five filled permanent positions from 71 to 66 during the audited period, representing a seven percent decrease in filled positions, which was due to a retirement incentive program offered in the 2008-2009 fiscal year. The decreases in Personal Services were partially offset by salary increases under collective bargaining agreements. Increases in Contractual Services were due to increases in fuel oil, and natural gas costs that were previously being charged in the Commodities account.

Special Revenue Funds:

Federal and Other Restricted Accounts Fund:

The Station's Federal and Other Restricted Accounts receipts totaled \$3,991,873 and \$3,235,572 for the fiscal years ended June 30, 2009 and 2010, respectively, as compared with \$3,874,469 for the fiscal year ended June 30, 2008. These receipts were primarily from state and federal grants for the various research projects conducted by the Station. The decrease during the 2009-2010 fiscal year is attributable to a reduction in the amount of federal grant money received for research concerning the West Nile Virus Surveillance, Pesticide Analysis and the Public Health Counter-Terrorism programs.

A comparison of expenditures, as reported by the State Comptroller, within the Federal and Other Restricted Accounts Fund for the audited period and the fiscal year ended June 30, 2008, is presented below:

	Fiscal Year Ended June 30,		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personal Services	\$1,632,072	\$1,556,065	\$1,660,248
Contractual Services	518,339	618,866	583,498
Commodities	498,759	405,832	408,444
Revenue Refunds	1,298	0	0
Sundry Charges	921,672	894,176	1,001,608
Equipment	82,295	125,325	106,959
Total Expenditures	<u>\$3,654,435</u>	<u>\$3,600,264</u>	<u>\$3,760,757</u>

Total Federal and Other Restricted Accounts expenditures increased by \$106,322, or three percent, during the audited period. Personal Services and Sundry Charges accounted for the majority of expenditures during the audited period.

Increases in Personal Services costs were the result of an increase of 16 filled seasonal part-time positions from 23 to 39, representing a 70 percent increase, which was partially offset by a decrease of six filled full-time positions from 30 to 24, representing a 20 percent decrease. Increases in Sundry Charges were due to increases in fringe benefits costs consisting mainly of contributions to the State Employee's Retirement System (SERS). Increases in contractual services were mainly due to increases in leasing of personal property and decreases in commodities were due to decreases in laboratory supplies.

Capital Equipment Purchase Fund:

The Station processed expenditures for minor and general agency equipment during the audited period from the Capital Equipment Purchase Fund as follows:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital Equipment Purchase Fund	<u>\$169,697</u>	<u>\$135,774</u>	<u>\$146,913</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 \$8,463,931 and \$9,354,987 for fiscal years ended June 30, 2009 and 2010, respectively. The combined assets of the Fiduciary Research funds for the same periods totaled \$1,027,241 and \$1,164,193, 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 year ended December 31, 2010, and issued an unqualified opinion. In addition, the foundation submitted year-end financial statements for the years ended December 31, 2008 and 2009.

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.

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 year ended December 31, 2010, and issued an unqualified opinion. In addition, the Research Foundation submitted year-end financial statements for the years ended December 31, 2008 and 2009.

CONDITION OF RECORDS

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

Asset Management and Reporting:

Criteria: The State Property Control Manual and good business practice require that equipment items be properly recorded.

Condition: Our review of property control records for 30 equipment items tested showed the following deficiencies:

- (1) One item inspected which was documented as surplused was not on the inventory register.
- (2) One item inspected was not tagged or listed on the inventory register.
- (3) Two items were found in different locations than recorded on the inventory register.

Effect: Insufficient controls can lead to increased risk of loss and accountability.

Cause: Staff oversight appears to have contributed to the inventory weaknesses.

Recommendation: The Connecticut Agricultural Experiment Station should comply with the State Property Control Manual by maintaining accurate inventory records. (See Recommendation 1.)

Agency Response: “The Experiment Station will continue to make improvements to our capital and controllable inventories to ensure accurate records. The Experiment Station will make the necessary changes to the inventory listing so all items are listed in the correct locations.”

Disaster Recovery Planning:

Criteria: A disaster recovery plan that addresses resumption of Station business operations in the event of an emergency is a necessary planning element in the efficient operation of state government.

Condition: The Station does not have a well-documented disaster recovery plan which addresses all aspects of prompt business resumption.

Effect: If an emergency situation should arise, there is no formal disaster recovery plan that details how to resume all business operations.

Cause: Management explained in detail how the Station would react to a disaster and resume activities; however, the plan was not in written form.

Recommendation: The Connecticut Agricultural Experiment Station should develop a formal disaster recovery plan that addresses prompt business resumption in the event of an interruption of operations. (See Recommendation 2.)

Agency Response: “The Connecticut Agricultural Experiment Station does have the necessary components in place in case of an emergency and/or the interruption of operations. The agency plan is not in writing. The Experiment Station will prepare a formal written disaster recovery plan as requested in this recommendation.”

RECOMMENDATIONS

Our prior audit report on the Connecticut Agricultural Experiment Station contained three recommendations. Of the recommendations, two have been implemented or otherwise resolved and one has been repeated in modified form. One new recommendation is being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- **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.** The Experiment Station Associates, Inc. and the Station complied with statutory requirements for foundations; therefore, this recommendation will not be repeated.
- **The Connecticut Agricultural Experiment Station should improve its internal control over receipts to ensure compliance with Section 4-32 of the General Statutes.** The Station is reporting and depositing its receipts in a timely manner; therefore, this recommendation will not be repeated.
- **The Connecticut Agricultural Experiment Station should strengthen its controls over their fixed assets/property control and the annual reporting of such assets.** Some improvements were noted, such as implementing a policy for the loan of equipment and the proper classification of fine art; however, deficiencies in this area still exist. As a result, this recommendation is being repeated in modified form. (See Recommendation 1.)

Current Audit Recommendations:

1. **The Connecticut Agricultural Experiment Station should comply with the State Property Control Manual by maintaining accurate inventory records.**

Comment:

We noted that some equipment items were not listed on the equipment inventory records and found in different locations as reported.

2. **The Connecticut Agricultural Experiment Station should develop a formal disaster recovery plan that addresses prompt business resumption in the event of an interruption of operations.**

Comment:

We noted that the Station does not have a well-documented disaster recovery plan addressing all aspects of prompt business resumption.

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, 2009 and 2010. 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, 2009 and 2010, 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:

Management of the Connecticut Agricultural Experiment Station is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. 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 expressing an opinion on the effectiveness of the agency's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Connecticut Agricultural Experiment Station's internal control over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or the breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, grant agreements that would be material in relation to the agency's financial operations will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the agency's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be a significant deficiency: Recommendation 1 – Asset Management and Reporting weaknesses. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 responses 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 them.

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.



William T. Zinn
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts