

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT AGRICULTURAL EXPERIMENT STATION
JUNE 30, 2011, 2012 AND 2013*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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October 22, 2015

AUDITORS' REPORT CONNECTICUT AGRICULTURAL EXPERIMENT STATION FOR THE FISCAL YEARS ENDED JUNE 30, 2011, 2012 AND 2013

We have audited certain operations of the Connecticut Agricultural Experiment Station (CAES) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2011, 2012 and 2013. The objectives of our audit were to:

1. Evaluate the station's internal controls over significant management and financial functions;
2. Evaluate the station's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the station, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying *Résumé of Operations* is presented for informational purposes. This information was obtained from the station's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

- (1) Deficiencies in internal controls;
- (2) Apparent noncompliance with legal provisions; and
- (3) Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Agricultural Experiment Station.

COMMENTS

FOREWORD

The Connecticut Agricultural Experiment Station, established in 1875, is the oldest agricultural experiment station in the United States. Research is conducted at four locations in Connecticut: the main campus in New Haven, Valley Laboratory in Windsor, Lockwood Farm in Hamden, and Griswold Research Center in Griswold. The principal function of the 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 CAES is within the Department of Agriculture for administrative purposes only.

Dr. Louis A. Magnarelli served as the director throughout the audited period.

Members of the Board of Control

In accordance with Section 22-79 of the General Statutes, the management of the CAES is vested in an eight-member Board of Control. Members of the board as of June 30, 2013, were as follows:

Steven K. Reviczky, Commissioner of Agriculture
Dr. Stephen L. Dellaporta
Terry Jones
Paul C. Larson
Joan Nichols
Dr. Dana Royer
Governor Dannel P. Malloy, ex officio
Dr. Louis A. Magnarelli, ex officio

RÉSUMÉ OF OPERATIONS

General Fund

General Fund receipts totaled \$9,811, \$11,178 and \$13,092 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. The receipts consisted primarily of rent received from an employee occupied apartment at the main campus.

Net General Fund expenditures totaled \$6,673,110, \$6,872,997 and \$6,775,556 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. A summary of these expenditures is presented below:

	<u>Fiscal Years Ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Personal Services	\$5,768,535	\$5,951,194	\$5,812,867
Contractual Services and Other Expenses	<u>904,575</u>	<u>921,803</u>	<u>962,689</u>
Total Expenditures	<u>\$6,673,110</u>	<u>\$6,872,997</u>	<u>\$6,775,556</u>

Personal services increased \$182,659 due to an additional pay period in the fiscal year ended June 30, 2012, and decreased \$138,327 due to a scientist position vacancy during the fiscal year ended June 30, 2013. Contractual services and other expenses increased \$58,114 during the audited period due to a pre-design study for the Valley Laboratory renovations and moving services to accommodate laboratory renovations at the main campus.

Special Revenue Fund - Federal and Other Restricted Accounts

Federal and Other Restricted Accounts receipts totaled \$4,054,125, \$3,768,783 and \$4,394,868 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. The receipts consisted mainly of restricted federal grants awarded for various new and ongoing research projects conducted by the station's scientists. Funding fluctuations for research studies concerning the Control of West Nile Virus and the Aquatic Weeds in Lake programs attributed

to the \$285,342 decrease and \$626,085 increase in total receipts received during the fiscal years ended June 30, 2012 and 2013, respectively.

Net Federal and Other Restricted Accounts expenditures totaled \$3,958,209, \$4,210,073 and \$4,401,230 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. A summary of these expenditures is presented below:

	<u>Fiscal Years Ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Personal Services	\$2,884,031	\$2,998,771	\$2,653,179
Contractual Services and Other Expenses	804,141	751,425	688,206
Other Charges	306	81,079	364,961
Grant Transfers	198,145	247,476	275,233
Capital Outlays	<u>71,586</u>	<u>131,322</u>	<u>419,651</u>
Total Expenditures	<u>\$3,958,209</u>	<u>\$4,210,073</u>	<u>\$4,401,230</u>

A reduction to the federal grant funding for the post doctoral scientists positions decreased the cost of personal services during the fiscal year 2012-2013. The \$348,065 increase in capital outlays during the audited period is due mainly to the purchase of equipment for the analytical chemistry department and the construction of a laboratory building at the Griswold Research Center in Griswold.

Capital Equipment Purchase Fund

Capital Equipment Purchase Fund expenditures totaled \$37,564, \$143,148 and \$209,853 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. The station purchased minor and general agency equipment such as office furniture and laboratory furnishings.

Fiduciary Funds

Development and Research Support Funds

The CAES 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 an annual audit in accordance with the generally accepted accounting principles and auditing standards by an independent public accounting firm. We have relied on the financial audit of the fiduciary funds' investment activity for fiscal years ended June 30, 2011, 2012 and 2013, after having satisfied ourselves as to the firm's professional reputation, qualifications and independence.

Trustee funds' combined assets totaled \$11,086,298, \$11,169,603 and \$12,374,720 for the fiscal years ended June 30, 2011, 2012 and 2013, respectively. Fiduciary Research funds' combined assets totaled \$1,411,368, \$1,492,134 and \$1,690,206 for the same periods, respectively.

Experiment Station Associates, Inc.

The Experiment Station Associates, Inc. was founded in 1990 and is a publicly supported non-profit foundation. Its purpose is to educate the public and communicate 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 limited. The foundation pays for informational brochures and provides volunteers for the station's Plant Science Day and the Spring Open House.

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, 2013, and issued an unmodified opinion. In addition, the foundation submitted year-end financial statements for the years ended December 31, 2011 and 2012.

Connecticut Agricultural Experiment Station Research Foundation, Inc.

The Connecticut Agricultural Experiment Station Research Foundation, Inc. was founded in June 2007 as a tax-exempt 501 (c) (3) nonprofit organization. Its main purpose is to support the on-going and new research of the Connecticut Agricultural Experiment Station's scientists. This 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, 2013, and issued an unmodified opinion. In addition, the foundation submitted year-end financial statements for the years ended December 31, 2011 and 2012.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

The following recommendations resulted from our current examination of the Connecticut Agricultural Experiment Station:

Disposal of Inventory and Incomplete Inventory Records

Criteria: Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the State Comptroller. The State Property Control Manual published by the Office of the State Comptroller states that property shall not be destroyed by a state agency unless it is certified for disposition by a duly authorized representative of the State and Federal Distribution Center. The State Property Control Manual details specific requirements and standards that a state agency property control system must comply with, which include inventory records that accurately reflect purchases of capital assets, repairs of facilities, ownership and other additions and deletions that occurred during the fiscal year.

The State Property Control Manual prescribes that only capitalized assets and individual assets with a value or cost over \$1,000, be reported on the Asset Management/Inventory Report/GAAP Reporting Form CO-59 (CO-59). The report must be submitted by October 1st and must reflect the sum total of the physical inventory as of June 30th.

Condition: The Connecticut Agricultural Experiment Station disposed of books that were previously recorded on its inventory for \$939,305 without obtaining authorization from the distribution center.

The station's inventory records appear inaccurate for the fiscal years ended June 30, 2011, June 30, 2012 and June 30, 2013 as follows:

- A newly constructed research facility, valued at \$650,000, was omitted from the CO-59.
- Equipment and furniture purchases, valued at \$141,970, were not tagged or included on the inventory list.
- Routine facility repairs and maintenance expenses, costing \$8,823, were charged to the capital expenditures accounts instead of being expensed when incurred.

- Annual adjustments to the value of books and journals were not recorded in the respective fiscal years.
- Furnishings valued at \$1,000 or more were not tagged or reported as an asset on the CO-59.

Our physical inspection of the station's assets disclosed deficiencies in recordkeeping. Four out of 35 items selected from the inventory list were found in a location different from the provided list. Two out of 20 items selected during the tour of the station's facilities were not correctly reflected on the inventory list.

Effect: The station disposed of books and journals without a proper approval and approximately \$800,973 of assets were omitted or incorrectly accounted for in the station's records. Overall, there appears to be less assurance that inventory was recorded and maintained properly.

Cause: The station did not follow proper procedures included in the State Property Control Manual to dispose of and account for inventory.

Recommendation: The Connecticut Agricultural Experiment Station should comply with the State Property Control Manual when disposing of inventory items, purchasing, constructing, and tagging assets. (See Recommendation 1.)

Agency Response: "The Connecticut Agricultural Experiment Station takes its custodial and fiduciary responsibility for state and station assets very seriously. The station did reduce its paper copies of many journals that go back decades that are no longer utilized and available to the research staff electronically. The state library was asked if they wanted the journals and books and declined the offer. Although the books and journals were recorded on the inventory at original cost, there was no fair market or residual value for the holdings. The station has since and will continue in the future to surplus all books and journals through the State and Federal Distribution Center. The Griswold Research Center field laboratory has been added to the station asset inventory. Equipment and furniture that meets the capital threshold will be tagged and recorded in the agency inventory as required by the State Property Control Manual."

Inadequate Controls Over Software Inventory

- Criteria:* Chapter six of the State Property Control Manual specifies requirements and standards that a state agency software control system must comply with, including maintaining a software inventory to track and control all agency software media, licenses or end user license agreements, certificates of authenticity, purchase documentation, and related items.
- Condition:* We noted during our testing that the software library was not subject to an annual inventory, the list itself did not meet the minimum detail requirements, and the annual software renewals were inappropriately added to the list.
- We selected eight software titles, and three out of eight licenses were not located to confirm the description listed. Our physical inspection of the library revealed that the purchase documents are not included with the media on file, and the field locations are allowed to retain software media at their research facility and not in a software library.
- Effect:* Deficiencies in the controls over software inventory provide a decreased ability to properly safeguard state assets and accurately report the station's inventory.
- Cause:* Internal controls over software inventory were inadequate and the station did not follow the requirements specified in the State Property Control Manual.
- Recommendation:* The Connecticut Agricultural Experiment Station should improve its internal controls over the custody and reporting of its software inventory. (See Recommendation 2.)
- Agency Response:* "The Connecticut Agricultural Experiment Station has established a centralized software library. The software inventory will be made part of the annual physical inventory process. Renewals will be properly recorded and media, license agreements and purchasing documentation will be filed and accounted for in the software inventory."

RECOMMENDATIONS

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

Status of Prior Audit Recommendations:

- **The Connecticut Agricultural Experiment Station should comply with the State Property Control Manual by maintaining accurate inventory records.** This recommendation has been modified to reflect current conditions. (See Recommendation 1.)
- **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.** The station has developed a draft disaster recovery plan to enable prompt business resumption; therefore, this recommendation will not be repeated.

Current Audit Recommendations:

1. **The Connecticut Agricultural Experiment Station should comply with the State Property Control Manual when disposing of inventory items, purchasing, constructing and tagging assets.**

Comment:

Books and journals recorded on inventory records with a total value of \$939,305 were disposed of without proper approval, and approximately \$800,793 of assets were omitted or incorrectly accounted for in the station's records.

2. **The Connecticut Agricultural Experiment Station should improve its internal controls over the custody and reporting of its software inventory.**

Comment:

The software library and inventory listing are not in compliance with the State Property Control Manual.

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.


Paulina K. Burek
Auditor II

Approved:



John C. Geragosian
Auditor of Public Accounts


Robert M. Ward
Auditor of Public Accounts