REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

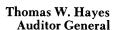
PRESTON SCHOOL OF INDUSTRY GENERAL FUND FINANCIAL AUDIT REPORT YEAR ENDED JUNE 30, 1983

REPORT BY THE OFFICE OF THE AUDITOR GENERAL

R-547

STATE OF CALIFORNIA PRESTON SCHOOL OF INDUSTRY GENERAL FUND FINANCIAL AUDIT REPORT YEAR ENDED JUNE 30, 1983

JULY 1984







STATE OF CALIFORNIA Office of the Auditor General

660 J STREET, SUITE 300 SACRAMENTO, CALIFORNIA 95814

July 5, 1984

R-547

Mr. N. A. Chaderjian, Agency Secretary Youth and Adult Correction Agency 1027 - 10th Street, Suite 300 Sacramento, California 95814

Dear Mr. Chaderjian:

The Office of the Auditor General presents its financial audit report on the financial statements of the Preston School of Industry General Fund accounts for the year ended June 30, 1983.

Sincerely,

THOMAS W. HAYES Auditor General

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cc: Mr. James Rowland, Director
Department of Youth Authority

Mr. James Embree, Superintendent Preston School of Industry

Mr. James R. Duncan, Supervising Auditor Audits Section Department of Youth Authority

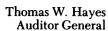
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INTRODUCTION

We have conducted a financial audit of the General Fund accounts of the Preston School of Industry at Ione, a Department of the Youth Authority facility. We conducted this audit under the authority vested in the Auditor General by Section 10500 $\underline{\text{et}}$ $\underline{\text{seq}}$. of the Government Code.

At June 30, 1983, the Preston School of Industry housed 576 wards. The facility's primary objective is to protect society by providing training and treatment for the rehabilitation of young persons found guilty of public offenses.





Telephone: (916) 445-0255

STATE OF CALIFORNIA

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N. A. Chaderjian, Agency Secretary Youth and Adult Correctional Agency 1027 - 10th Street, Suite 300 Sacramento, California 95814

We have examined the General Fund balance sheet of the Preston School of Industry as of June 30, 1983, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. We made our examination in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary under the circumstances.

As described more fully in Note 1, the financial statements presented are only for the General Fund accounts of the Preston School of Industry. They are not intended to present fairly the financial position of the Preston School of Industry as a whole at June 30, 1983, or the results of its operations and changes in financial position of its ward trust accounts for the year then ended, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the financial position of the General Fund accounts of the Preston School of Industry as of June 30, 1983, and the results of operations and changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the restatement of fund balance as described in Note 8.

OFFICE OF THE AUDITOR GENERAL

KARL W. DOLK, CPA

Assistant Auditor General

Date: May 8, 1984

Staff: Richard I. LaRock, CPA, Audit Manager

Teri Yee, CPA Donald C. Roberts

STATE OF CALIFORNIA PRESTON SCHOOL OF INDUSTRY GENERAL FUND BALANCE SHEET AS OF JUNE 30, 1983

ASSETS

Cash Accounts Receivable Due from Other Funds Prepaid Expenses Total Assets	\$ 99,408 6,596 156,300 53,440 \$ 315,744
LIABILITIES AND FUND BALANCE	
Liabilities Accounts Payable Due to Other Funds Due to Other Governments Other Liabilities	\$ 257,236 78,255 7,978 500
Total Liabilities	343,969
Fund Balance Clearing Account (Note 3) Reserve for Encumbrances	(104,015) 75,790
Total Fund Balance	(28,225)
Total Liabilities and Fund Balance	\$ 315,744

See the notes accompanying the financial statements.

STATE OF CALIFORNIA PRESTON SCHOOL OF INDUSTRY GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FISCAL YEAR ENDED JUNE 30, 1983

REVENUES

Miscellaneous	\$	704
OTHER FINANCING SOURCES		
Appropriations (Note 4)	14,193	, 438
Total Revenues and Other Sources	14,194	<u>,142</u>
EXPENDITURES		
Personal Services Operating Expense and Equipment	11,460 2,466	
Total Expenditures	13,927	, 486
OTHER USES		
Transfer of Accountability to the State Controller (Note 5)	163	, 996
Total Expenditures and Other Uses	14,091	, 482
Excess of Revenues and Other Sources Over Expenditures and Other Uses	102	, 660
Fund Balance, July 1, 1982, as restated (Note 8)	(130	<u>,885</u>)
Fund Balance, June 30, 1983	\$ (28	<u>,225</u>)

See the notes accompanying the financial statements.

PRESTON SCHOOL OF INDUSTRY NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 1983

1. Definition of the Reporting Entity

The accompanying financial statements reflect the financial position and results of operations of the Preston School of Industry's accounts within the State's General Fund. This report does not include the financial activities of the ward trust accounts or the General Fixed Asset Account Group at the Preston School of Industry. Further, the financial statements do not reflect the activities of the State's General Fund accounts of either the California Department of the Youth Authority or the State of California as a whole.

2. <u>Summary of Significant Accounting Policies</u>

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments. Below is a summary of the significant accounting policies that pertain to the Preston School of Industry's financial statements.

A. Fund Accounting

The Preston School of Industry's General Fund accounts are part of the State's General Fund, which is the main operating fund of the State. The State's General Fund, a governmental fund type, accounts for transactions that are not required to be accounted for in another fund.

B. Basis of Accounting

The State's General Fund is accounted for on a modified accrual basis. Revenues are recorded when they become measurable and available. Expenditures are recorded when the liability is incurred, except for costs of vacation and sick leave, which are recorded when paid.

3. Fund Balance-Clearing Account

This account represents a portion of the fund balance of the State's General Fund. The balance equals the excess of the liabilities that have not been paid by the State Controller at June 30, 1983, over the assets of the Preston School of Industry that have not been transferred to the State Controller.

4. Appropriations

Financing sources from appropriations consist of payments made by the State Controller and charged to the Preston School of Industry's budget allocations.

5. Transfer of Accountability to the State Controller

This account represents amounts that the Preston School of Industry transferred from its cash account to the General Fund cash account that the State Controller maintains.

6. Retirement Contributions

Regular employees of the Preston School of Industry are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount that the Preston School of Industry and its employees contribute to the PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as they are accrued. The Preston School of Industry contributed \$1,405,641 to the PERS for fiscal year 1982-83.

7. Reconciliation of Legal Basis to GAAP Basis

The Preston School of Industry annually reports its financial condition according to state laws and regulations (legal basis). The Preston School of Industry maintains its accounting records on the legal basis primarily to maintain accountability of its budget; these accounting records serve as the basis for audit. After the legal basis report is prepared by the Preston School of Industry, adjustments are made to prepare the financial statements in accordance with generally accepted accounting principles (GAAP).

The accounting principles applied to develop data on a legal basis differ from those used to present financial statements in conformity with GAAP. Encumbrances for goods and services ordered but not received by the end of the year are recorded as expenditures on a legal basis but are reported as a reservation of fund balance in accordance with GAAP. The following schedule reconciles the results of operations and the fund balance determined on a legal basis to the results of operations and the fund balance determined in accordance with GAAP.

	Excess of Revenues and Other Sources Over Expenditures and Other Uses	Fund Balance June 30, 1983
Legal Basis, June 30, 1983	\$ 86,592	\$(104,015)
Encumbrances June 30, 1982 June 30, 1983	(59,722) 	75,790
GAAP Basis, June 30, 1983	\$102,660	\$ (28,225)

8. Fund Balance, July 1, 1982, as Restated

In the prior year, encumbrances outstanding were charged to expenditures. To conform with GAAP, the fund balance at July 1, 1982, was restated to incorporate the effect of the change in accounting for these encumbrances as a reservation of fund balance. The following shows the effect of the restatement.

Fund Balance, July 1, 1982, Before Restatement	\$(190,607)
Effect of Change in Accounting for Recognition of Encumbrances	59,722
Fund Balance, July 1, 1982, as Restated	<u>\$(130,885</u>)

9. <u>Comparison of Budgeted and Actual Expenditures</u>

Each year, the Legislature adopts a budget for support expenditures for the California Department of the Youth Authority (CYA) as a whole. However, the legally adopted budget does not include specific appropriations for individual CYA institutions such as the Preston School of Industry; the CYA allocates these appropriations to the various institutions. The State Controller accounts for the CYA total budget appropriation as a whole and maintains accountability over the total CYA budget allocation to The schedule below presents the budgeted allocations institution. and the actual (legal basis) expenditures and reimbursements for the Preston School of Industry for the year ended June 30, 1983. The schedule does not include data related to appropriations for previous fiscal years.

Expenditures	Budget	Actual	Variance- Favorable (<u>Unfavorable</u>)
Personal Services Operating Expenses	\$11,387,000	\$11,625,324	\$(238,324)
and Equipment Reimbursements	2,877,300 (309,400)	2,527,604 (203,179)	349,696 (106,221)
Total Expenditures	\$13,954,900	\$13,949,749	\$ 5,151