

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



Telephone:
(916) 445-0255

Thomas W. Hayes
Auditor General

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,

A handwritten signature in cursive script that reads "Thomas W. Hayes".

THOMAS W. HAYES
Auditor General

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

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	3
FINANCIAL STATEMENTS	
BALANCE SHEET	5
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	7
NOTES TO THE FINANCIAL STATEMENTS	9

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 et 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.



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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	\$ 99,408
Accounts Receivable	6,596
Due from Other Funds	156,300
Prepaid Expenses	<u>53,440</u>
Total Assets	<u>\$ 315,744</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts Payable	\$ 257,236
Due to Other Funds	78,255
Due to Other Governments	7,978
Other Liabilities	<u>500</u>
Total Liabilities	<u>343,969</u>
Fund Balance	
Clearing Account (Note 3)	(104,015)
Reserve for Encumbrances	<u>75,790</u>
Total Fund Balance	<u>(28,225)</u>
Total Liabilities and Fund Balance	<u>\$ 315,744</u>

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
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OTHER FINANCING SOURCES

Appropriations (Note 4)		<u>14,193,438</u>
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Total Revenues and Other Sources		<u>14,194,142</u>
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EXPENDITURES

Personal Services		11,460,782
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Operating Expense and Equipment		<u>2,466,704</u>
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Total Expenditures		13,927,486
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OTHER USES

Transfer of Accountability to the State Controller (Note 5)		<u>163,996</u>
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Total Expenditures and Other Uses		<u>14,091,482</u>
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Excess of Revenues and Other Sources Over Expenditures and Other Uses		102,660
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Fund Balance, July 1, 1982, as restated (Note 8)		<u>(130,885)</u>
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Fund Balance, June 30, 1983	\$	<u><u>(28,225)</u></u>
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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. Summary of Significant Accounting Policies

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	(59,722)	
June 30, 1983	<u>75,790</u>	<u>75,790</u>
GAAP Basis, June 30, 1983	<u>\$102,660</u>	<u>\$(28,225)</u>

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	<u>59,722</u>
Fund Balance, July 1, 1982, as Restated	<u>\$(130,885)</u>

9. Comparison of Budgeted and Actual Expenditures

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 total CYA budget appropriation as a whole and maintains accountability over the total CYA budget allocation to each institution. The schedule below presents the budgeted allocations 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	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Personal Services	\$11,387,000	\$11,625,324	\$(238,324)
Operating Expenses and Equipment	2,877,300	2,527,604	349,696
Reimbursements	<u>(309,400)</u>	<u>(203,179)</u>	<u>(106,221)</u>
Total Expenditures	<u>\$13,954,900</u>	<u>\$13,949,749</u>	<u>\$ 5,151</u>