

NEVADA LEGISLATURE

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND
AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 1978



LEGISLATIVE AUDITOR
CARSON CITY, NEVADA

68066
99089

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

68066

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JUN 5 1980

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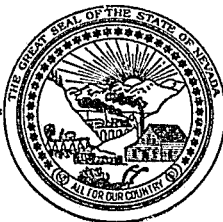
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Legislative Commission
Legislative Building
Carson City, Nevada

We have completed a legislative audit of the Department of Prisons', Prison Warehouse Fund as authorized by the Legislative Commission.

The purpose of a legislative audit is to furnish the members of the Legislature with factual information concerning the financial operations and compliance with laws and regulations of the activities and programs of the agencies of Nevada State Government.

We have examined the balance sheet of the Department of Prisons', Prison Warehouse Fund as of June 30, 1978, and the related statement of operations and change in fund balance for the fiscal year then ended. Except as set forth in the following paragraph, our examination was made in accordance with Standards for Audit of Governmental Organizations, Programs, Activities and Functions, except as noted, and accordingly included such tests of

the accounting records and such other auditing procedures as we considered necessary in the circumstances. The scope of our present audit program does not provide assurance that resources are managed or utilized in an economical or efficient manner, or that goals are effectively achieved.

Our examination revealed the following:

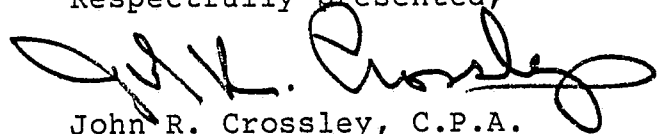
1. Inventories of clothing and bedding, totaling over \$28,000, were included as warehouse inventory but were in the possession and use of the Northern Nevada Correctional Center. Thus, inventories were correspondingly overstated.
2. The Prison Warehouse Fund inventory, which is in excess of \$175,000, has not been recorded, nor has equipment and accumulated depreciation been recorded in the State Controller's FMIRS System, thus understating by a material amount both assets and fund balance.
3. The fund does not record salary and salary related expenses. Instead, these expenses are processed through the Directors' General Fund account.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of

Legislative Commission
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the Department of Prisons', Prison Warehouse Fund, as of June 30, 1978, or the results of its operations and change in fund balance for the fiscal year then ended.

Respectfully presented,



John R. Crossley, C.P.A.
Legislative Auditor

Robert O. Dimmick
Deputy Legislative Auditor

December 4, 1978
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

SUMMARY OF RECOMMENDATIONS

<u>Page</u>	<u>Requires Legislative Action</u>	<u>Implementation Status Per Reply</u>			
		<u>Accom- plished</u>	<u>To Be</u>	<u>Deferred</u>	<u>Rejected</u>
11.9	Record and periodically adjust all necessary accounts to accurately reflect financial position and results of operations.....			X	
11.10	Require counting teams to include a staff person on each team.....	X			
11.10	Require a staff person to enter inventory on all count sheets.....	X			
11.11	Document and communicate to persons involved, inventory procedures for timely and uniform counting.....	X			
11.11	Ensure that items used by the institutions are expensed to the proper category.....	X			
11.12	Document an analysis in support of the calculation of the percentage markup on sales.....			X	
11.12	Conduct periodic reviews and update the markup analysis.....			X	
11.13	Initiate segregation of duties for ordering, receiving, approving vouchers for processing, and preparing sales documentation.....	X			

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

EXHIBIT A

BALANCE SHEET
JUNE 30, 1978

ASSETS

Cash with State Treasurer	\$38,741
Accounts Receivable	<u>5,092</u>
Total Assets	<u>\$43,833</u>

LIABILITIES, RESERVES, AND
FUND BALANCE

LIABILITIES

Accounts Payable	<u>\$24,499</u>
Total Liabilities	24,499

RESERVE FOR ENCUMBRANCES

19,334

FUND BALANCE

--

Total Liabilities, Reserves,
and Fund Balance

\$43,833

The accompanying summary of significant accounting policies is an integral part of these statements.

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

EXHIBIT B

STATEMENT OF OPERATIONS
AND CHANGE IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1978

FUND BALANCE, JULY 1, 1977	\$	<u> --</u>
RECEIPTS		
Prison Warehouse Receipts		<u>931,717</u>
Total Receipts		<u>931,717</u>
DISBURSEMENTS AND ENCUMBRANCES		
Purchase of Inventory	910,849	
Operating Expenses	<u>1,534</u>	
Total Disbursements	912,383	
Encumbrances	<u>19,334</u>	
Total Disbursements and Encumbrances	<u>931,717</u>	
Excess of Receipts Over Disbursements and Encumbrances		<u> --</u>
FUND BALANCE, JUNE 30, 1978	\$	<u> --</u>

The accompanying summary of significant accounting policies is an integral part of these statements.

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The recording of receipts and disbursements of the Department of Prisons', Prison Warehouse Fund is made in the Controller's FMIRS System. While expenditures are not recorded until disbursements are actually made and receipts are not recorded until actually received, the use of the year cut-off period provides for the accrual of receivables and payables for use in reporting transactions on the accrual basis.

Payroll and certain other operating expenses are recorded in the Director's General Fund Budget Account. As a result, not all costs of the prison warehouse are reflected on the financial statements.

Inventories

Although records are maintained which reflect the amount of inventory on hand, and a physical inventory was made of amounts on hand at June 30, 1978, the inventory is not recorded in the Controller's FMIRS System. As a result inventory is not included in the financial statements.

Equipment

Equipment items utilized at the prison warehouse and the related accumulated depreciation have not been recorded or included for financial statement presentation.

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

GENERAL

The Prison Warehouse Fund was created by Chapter 430, Statutes of Nevada, 1977, as an intragovernmental service fund. The purpose of the fund is to account for the purchase of goods for use by the Department of Prisons. The cost of distributed inventory, in accordance with NRS 209.211, is to be charged to the budget of the individual institutions as inventory is purchased by them, and credited to the Warehouse Fund.

STATE OF NEVADA
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PRISON WAREHOUSE FUND

ACCOUNTING

COMPLIANCE WITH NRS 353.323

When the Prison Warehouse Fund was created by NRS 209.211, it was set up as an intragovernmental service fund. In accordance with NRS 353.323, "an intragovernmental service fund shall be used to account for and finance the self-supporting activities...."

The Department has not recorded inventory, equipment and related accumulated depreciation, as well as payroll, payroll related expenses, and most operating expenses of the Prison Warehouse Fund in the Controller's FMIRS Accounting System. The statement of operations, as a result, reflects purchases of inventory and not the cost of goods sold, as inventory adjustments were not recorded.

RECOMMENDATION

The Department of Prisons record and periodically adjust all necessary accounts to accurately reflect the financial position of the Prison Warehouse Fund and the results of its operations, including at a minimum; inventory, equipment and related accumulated depreciation, salary expenses, and all operating expenses.

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

ACCOUNTING
(Continued)

UTILIZATION OF INMATES FOR INVENTORY TAKING

Inmates were used during the June 1978 inventory taking procedures. In some instances, the inventory teams were made up of two inmates while in other instances inmates recorded the inventory pages from the count of a staff person. We feel that better control over State assets is gained when a staff person in all instances records the quantities counted.

RECOMMENDATION

The Department of Prisons require that:

1. Counting of inventory be in teams with a staff person on each team.
2. A staff person record all count sheets.

DOCUMENTED INVENTORY PROCEDURES

The Department of Prisons did not adequately document and communicate uniform and consistent inventory procedures. Thus, counting procedures, methods employed to account for obsolescent inventory, segregation of incoming goods, and movement of inventory items during the count were among the inventory control procedures not uniformly documented and communicated to inventory counting personnel.

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

ACCOUNTING
(Continued)

DOCUMENTED INVENTORY PROCEDURES (Continued)

RECOMMENDATION

The Department of Prisons communicate written procedures to all personnel involved in taking the inventory, including the dates, the methods to be used, the proper forms, and how individuals are to count the inventory.

RECORDING SALES

During our inventory observation, approximately \$28,000 in clothing and linen supplies were noted inside the laundry storeroom of the Northern Nevada Correctional Center. These items were being used by the institution. We learned that the items were not expensed to the institution, but instead were listed on the inventory cards in the Prison Warehouse Fund.

RECOMMENDATION

The Department of Prisons ensure that items being used by the institutions are expensed to the proper category.

STATE OF NEVADA
DEPARTMENT OF PRISONS
PRISON WAREHOUSE FUND

ACCOUNTING
(Continued)

COMPUTATION OF PERCENTAGE MARKUP

The Prison Warehouse Fund charges the institutions a five per- cent markup on all warehouse items delivered to the institutions. Calculation of the amount of markup was judgementally established.

RECOMMENDATION

The Department of Prisons:

1. Document an analysis of the cost of operations and establish the markup based on this analysis.
2. Conduct periodic reviews and update the analysis.

STATE OF NEVADA
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INTERNAL CONTROL

SEGREGATION OF DUTIES

The warehouse supervisor orders the inventory, and at times also signs for receipt of inventory, approves documentation in support of vouchers or invoices, and records transactions and inventory adjustments to the perpetual inventory cards.

Personnel ordering inventory should not receive the inventory and personnel posting inventory cards should not order and receive the inventory or other items. The individual approving invoices and other documentation, in support of vouchers charging the institutions, should not receive inventory.

RECOMMENDATION

The Department of Prisons initiate segregation of duties so that check and review procedures can be in effect.

STATE OF NEVADA
DEPARTMENT OF PRISONS

BOARD OF PRISON COMMISSIONERS
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RICHARD BRYAN, ATTORNEY GENERAL
WM. D. SWACKHAMER, SECRETARY OF STATE



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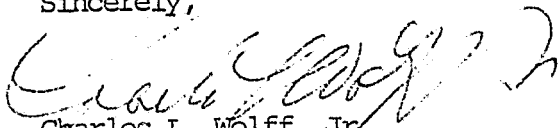
May 1, 1979

John R. Crossley, C.P.A.
Legislative Auditor
Audit Division
Legislative Building
Carson City, Nevada
89701

Dear Mr. Crossley:

I have reviewed the Legislative Audit Report of the Department of Prisons' Prison Warehouse Fund as of June 30, 1978. The report's recommendations address two general areas of problems. As noted on the Summary of Recommendations, those recommendations relating to warehouse operation procedures have been or are in the process of being implemented. The recommendations relating to accounting procedures cannot be effectively implemented and are, therefore, deferred. The Department requested AB-363 be enacted to provide a cash balance necessary prior to establishment of proper accounting procedures for the fund. AB-363 was indefinitely postponed by the Assembly Ways and Means Committee of the 1979 Legislature. The Department will propose a similar bill for the 1981 Legislature's consideration. Your staff conducted the audit in a professional manner and were most courteous.

Sincerely,


Charles L. Wolff, Jr.
Director

CLW/MM/cm

END