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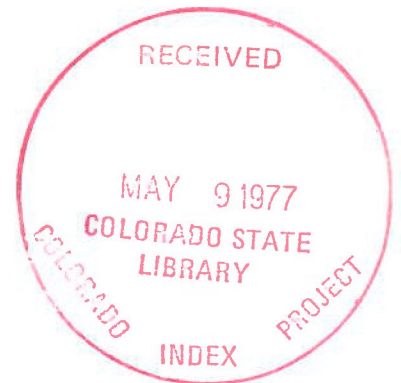


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STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY

FINANCIAL STATEMENTS
AND
LETTER OF COMMENTS AND RECOMMENDATIONS

JUNE 30, 1973, 1974 AND 1975



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McDonald, Halbig and Associates, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY

FINANCIAL STATEMENTS
AND
LETTER OF COMMENTS AND RECOMMENDATIONS

JUNE 30, 1973, 1974 AND 1975 //



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ACCOUNTANTS' OPINION

The Honorable John P. Proctor, C.P.A.
State Auditor, State of Colorado
Denver, Colorado

We have examined the financial statements of the General Operating Fund, the Canteen and Library Fund, the Trust and Agency Fund, the Protection of Water Rights Fund, the Capital Construction Fund and the General Fixed Asset Group of Accounts of the Colorado State Reformatory for the years ended June 30, 1973, 1974 and 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

A number of buildings for which no cost records were available were recorded on the books at insurance valuations. We are therefore unable to express an opinion on the balance sheet of the General Fixed Asset Group of Accounts.

In our opinion, the financial statements of the General Operating Fund, the Canteen and Library Fund, the Trust and Agency Fund, the Protection of Water Rights Fund and the Capital Construction Fund of the Colorado State Reformatory present fairly the financial position of those funds at June 30, 1975 and the results of operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

McDonald, Hallig and Associates, Inc.

December 3, 1975

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
BALANCE SHEETS
JUNE 30, 1975

	General Operating Fund	Canteen and Library Fund	Trust and Agency Fund - Note E	Capital Construction Fund	General Fixed Assets
ASSETS					
Cash on hand and in banks	\$ 7,000	\$ 2,000	\$ 46,642	\$ -	\$ -
Cash held by State Treasurer	121,588	18,958	7,989	373,829	-
Accounts receivable - Note B	6,481	-	6,200	-	-
Due from Federal Government	45,535	-	-	-	-
Due from other agencies	441	-	-	-	-
Due from other funds	-	-	21	-	-
Inventories - Note A -					
Consumable supplies	175,432	-	-	-	-
Dairy herd - young stock	8,175	-	-	-	-
Resale merchandise	-	7,586	-	-	-
Prepaid rent	-	-	388	-	-
Land and improvements - Note C	-	-	-	-	101,182
Buildings - Note C	-	-	-	-	4,897,157
Equipment	-	5,767	13,333	-	1,164,172
Allowance for depreciation - Note A	-	(3,642)	-	-	-
Dairy herd - mature stock - Note A	-	-	-	-	20,650
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ 364,652	\$ 30,669	\$ 74,573	\$ 373,829	\$6,183,161
LIABILITIES					
Accounts payable	\$ 75,847	\$ 1,141	\$ 4,628	\$ -	\$ -
Miscellaneous payables	82	-	-	-	-
Advances on Federal grants	9,359	-	-	-	-
Due to State General Revenue Fund	44,301	-	-	-	-
Due to other agencies	498	-	-	-	-
Due to other funds	21	-	-	-	-
Contingent liability - Note D	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	\$ 130,108	\$ 1,141	\$ 4,628	\$ -	\$ -

RESERVES AND FUND BALANCES

Reserve for revolving fund	7,000	-	-	-	-
Reserve for encumbrances	37,616	-	-	10,930	-
Unencumbered appropriation forwarded	-	-	-	362,899	-
Reserves for receivables - Note B	6,321	-	-	-	-
Reserve for inventories	183,607	-	-	-	-
Deposits held for residents	-	-	35,957	-	-
Investment in fixed assets	-	-	13,333	-	6,183,161
Fund balance	<u>-</u>	<u>29,528</u>	<u>20,655</u>	<u>-</u>	<u>-</u>
 TOTAL LIABILITIES, RESERVES AND FUND BALANCES	 \$ <u>364,652</u>	 \$ <u>30,669</u>	 \$ <u>74,573</u>	 \$ <u>373,829</u>	 \$ <u>6,183,161</u>

The accompanying notes to financial statements are an integral part of these statements.

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1973, - 1974 AND 1975

	<u>General Operating Fund</u>	<u>Canteen and Library Fund</u>	<u>Trust and Agency Fund - Note E</u>	<u>Protection of Water Rights Fund</u>	<u>Capital Construction Fund</u>
Balance July 1, 1972	\$ -	\$ 21,220	\$ 18,285	\$ -	\$ -
Fiscal year ended June 30, 1973 -					
Additions -					
Net change from operations	-	1,173	5,558	-	-
Equipment additions	-	2,140	-	-	-
Deductions -					
Equipment deletions	<u>-</u>	<u>(444)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance June 30, 1973	\$ -	\$ 24,089	\$ 23,843	\$ -	\$ -
Fiscal year ended June 30, 1974 -					
Additions -					
Net changes from operations	-	1,971	2,327	-	-
Equipment addition	<u>-</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance June 30, 1974	\$ -	\$ 26,360	\$ 26,170	\$ -	\$ -
Fiscal year ended June 30, 1975 -					
Additions -					
Net change from operations	-	3,108	-	-	-
Prior year adjustment - accounts payable accrual less liquidation	-	60	-	-	-
Deductions -					
Net change from operations	<u>-</u>	<u>-</u>	<u>(5,515)</u>	<u>-</u>	<u>-</u>
Balance June 30, 1975	<u>\$ -</u>	<u>\$ 29,528</u>	<u>\$ 20,655</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of these statements.

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
STATEMENTS OF APPROPRIATIONS, REVENUES AND DEDUCTIONS
FOR THE YEAR ENDED JUNE 30, 1973

	<u>General Operating Fund</u>			<u>Canteen and Library Fund</u>	<u>Trust and Agency Fund - Note E</u>	<u>Protection of Water Rights Fund</u>	<u>Capital Construction Fund</u>
	<u>Total</u>	<u>General Revenue</u>	<u>Augmenting Funds</u>				
APPROPRIATIONS AND REVENUES							
Original appropriation - State of Colorado funds	\$2,282,623	\$2,282,623	\$ -	\$ -	\$ -	\$ -	\$ -
Original appropriation - cash and Federal funds	477,727	-	477,727	-	32,061	-	-
Supplemental appropriations	21,428	21,428	-	-	-	-	-
Other appropriations (Merit, Salary Act, Health Insurance, etc.)	148,457	148,457	-	-	-	-	-
Appropriation forwarded from prior year	32,066	17,352	14,714	-	-	213	11,252
Authorized changes to augmenting funds	(99,248)	-	(99,248)	-	10,826	-	-
Refunds and reimbursements	36,391	36,391	-	-	645	-	-
Canteen sales	-	-	-	110,410	-	-	-
Assessment income	-	-	-	-	28,720	-	-
Other income	-	-	-	6,565	176	-	-
TOTAL APPROPRIATIONS AND REVENUES	\$2,899,444	\$2,506,251	\$ 393,193	\$ 116,975	\$ 72,428	\$ 213	\$ 11,252
DEDUCTIONS							
Expenditures - vouchered	\$2,864,312	\$2,479,964	\$ 384,348	\$ 115,079	\$ 66,608	\$ 171	\$ 5,782
Expenditures - non-vouchered	-	-	-	723	262	-	-
Appropriations forwarded to 1973-74	14,802	5,957	8,845	-	-	-	5,470
Spending authority reverted	20,330	20,330	-	-	-	42	-
TOTAL DEDUCTIONS	\$2,899,444	\$2,506,251	\$ 393,193	\$ 115,802	\$ 66,870	\$ 213	\$ 11,252
NET CHANGE FROM OPERATIONS	\$ -	\$ -	\$ -	\$ 1,173	\$ 5,558	\$ -	\$ -

The accompanying notes to financial statements are an integral part of these statements.

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
STATEMENTS OF APPROPRIATIONS, REVENUES AND DEDUCTIONS
FOR THE YEAR ENDED JUNE 30, 1974

	<u>General Operating Fund</u>			<u>Canteen and Library Fund</u>	<u>Trust and Agency Fund - Note E</u>	<u>Capital Construction Fund</u>
	<u>Total</u>	<u>General Revenue</u>	<u>Augmenting Funds</u>			
APPROPRIATIONS AND REVENUES						
Original appropriation - State of Colorado funds	\$2,585,677	\$2,585,677	\$ -	\$ -	\$ -	\$ 24,000
Original appropriation - cash and Federal funds	480,838	-	480,838	-	-	-
Supplemental appropriations	111,002	61,002	50,000	-	-	-
Other appropriations (Merit, Salary Act, Health Insurance, etc.)	238,366	238,366	-	-	-	-
Appropriation forwarded from prior year	14,802	5,957	8,845	-	-	5,470
Authorized changes to augmenting revenue	(31,009)	-	(31,009)	-	-	-
Refunds and reimbursements	15,279	15,058	221	-	567	-
Canteen sales	-	-	-	112,241	-	-
Assessment income	-	-	-	-	47,835	-
Other income	-	-	-	2,277	512	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL APPROPRIATIONS AND REVENUES	<u>\$3,414,955</u>	<u>\$2,906,060</u>	<u>\$ 508,895</u>	<u>\$ 114,518</u>	<u>\$ 48,914</u>	<u>\$ 29,470</u>
DEDUCTIONS						
Expenditures - vouchered	\$3,297,561	\$2,879,588	\$ 417,973	\$ 109,356	\$ 46,587	\$ 727
Expenditures - non-vouchered	-	-	-	3,191	-	-
Appropriations forwarded to 1974-75	112,885	22,450	90,435	-	-	24,000
Spending authority reverted	4,509	4,022	487	-	-	4,743
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>\$3,414,955</u>	<u>\$2,906,060</u>	<u>\$ 508,895</u>	<u>\$ 112,547</u>	<u>\$ 46,587</u>	<u>\$ 29,470</u>
NET CHANGE FROM OPERATIONS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,971</u>	<u>\$ 2,327</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of these statements.

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
STATEMENTS OF APPROPRIATIONS, REVENUES AND DEDUCTIONS
FOR THE YEAR ENDED JUNE 30, 1975

	General Operating Fund			Canteen and Library Fund	Trust and Agency Fund - Note E	Capital Construction Fund
	<u>Total</u>	<u>General Revenue</u>	<u>Augmenting Funds</u>			
APPROPRIATIONS AND REVENUES						
Original appropriations - State of Colorado funds	\$2,968,151	\$2,968,151	\$ -	\$ -	\$ -	\$ 368,497
Original appropriations - cash and Federal funds	517,391	-	517,391	-	-	-
Supplemental appropriations	50,249	50,249	-	-	-	-
Other appropriations (Merit, Salary Act, Health Insurance, etc.)	293,124	293,124	-	-	-	-
Appropriation forwarded from prior year	112,885	22,450	90,435	-	-	24,000
Authorized changes to augmenting revenue	128,459	-	128,459	-	-	-
Transfers from other agencies	141,912	141,912	-	-	-	-
Refunds and reimbursements	16,121	16,121	-	-	870	-
Canteen sales	-	-	-	125,509	-	-
Assessment income	-	-	-	-	45,842	-
Other income	-	-	-	2,325	340	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL APPROPRIATIONS AND REVENUES	<u>\$4,228,292</u>	<u>\$3,492,007</u>	<u>\$ 736,285</u>	<u>\$ 127,834</u>	<u>\$ 47,052</u>	<u>\$ 392,497</u>
DEDUCTIONS						
Expenditures - vouchered	\$3,940,457	\$3,216,234	\$ 724,223	\$ 121,674	\$ 52,567	\$ 18,669
Expenditures - non-vouchered	-	-	-	3,052	-	-
Appropriations forwarded to 1975-76	42,081	37,616	4,465	-	-	373,828
Spending authority reverted - Note F	241,454	233,857	7,597	-	-	-
Transfers to other agencies	4,300	4,300	-	-	-	-
	<u>4,300</u>	<u>4,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>\$4,228,292</u>	<u>\$3,492,007</u>	<u>\$ 736,285</u>	<u>\$ 124,726</u>	<u>\$ 52,567</u>	<u>\$ 392,497</u>
NET CHANGE FROM OPERATIONS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,108</u>	<u>\$ (5,515)</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of these statements.

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1973, 1974 AND 1975

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accrual basis of accounting is followed by all funds.

Consumable supply inventories are stated at average cost. Dairy herd inventories are valued using the "unit livestock price method" with calves priced at \$50 each, and each additional class priced ratably with mature stock priced at the maximum of \$350. Resale merchandise is priced at cost.

Depreciation over a ten year life on a straight-line basis is provided for equipment in the Canteen and Library Fund, which is enterprise in nature. Depreciation is not provided for capital assets in other funds.

NOTE B - ACCOUNTS RECEIVABLE

Accounts receivable of the General Operating Fund arise through operations of that fund and collections of those accounts are deposited with the Colorado State Treasurer for credit to the State General Revenue Fund. \$1,277 of the receivables represent amounts owed prior to July 1, 1973 and are considered uncollectible.

The reserves for receivables amount reflects reserves for the following items:

Uncollectible accounts receivable	\$ 1,277
Collectible accounts receivable	5,204
	<u>\$ 6,481</u>
Due from other agencies	441
Miscellaneous payables	(82)
Due to other agencies	(498)
Due to other funds	(21)
Net	<u><u>\$ 6,321</u></u>

NOTE C - LAND, LAND IMPROVEMENTS AND BUILDINGS

A number of buildings for which no cost records were available were recorded at insurance valuations.

NOTE D - CONTINGENT LIABILITIES

Certain Vocational Rehabilitation funds in the amount of \$1,524,919 were received by the agency from the Department of Social Services through the Department of Institutions. The Federal Government has disallowed

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 1973, 1974 AND 1975

certain of these funds to the Department of Social Services because of non-compliance with certain Federal Regulations. The agency may ultimately be liable for these funds.

NOTE E - TRUST AND AGENCY FUND

This is a combined fund and includes the Institutional Residents Accounts Fund and the Work Release Fund.

NOTE F - SPENDING AUTHORITY REVERTED, YEAR ENDED JUNE 30, 1975

\$189,556 of general revenue spending Authority reverted resulted from reimbursement of general fund expenditures in budget classes "Personal Services", "Incentive Allowance" and "Psychiatric Services" by transfer from Federal Grants: "Intervention in Adult Criminal Behavior" and "Human Resource Development".

There are no records to indicate that the Reformatory participated in either of the two grant programs.

Under explanation "to change financing per legislative intent under part 8, Section 4, H.B. 1740", the two grants were appropriated by increases to augmenting revenue. Allotments were then made to the three budget classes mentioned in the first paragraph of this note, and general revenue monies were transferred to unallotted appropriations.

The budgetary entry documents and the interagency voucher to accomplish the substitution of Federal criminal justice money for general revenue money were forwarded to the agency for execution from the Department of Institutions under date of July 17, 1975 and were posted as of June 30, 1975.

Due to the lateness in the 1974-75 fiscal year the monies reverted to the State of Colorado General Revenue Fund.

STATE OF COLORADO
DEPARTMENT OF INSTITUTIONS
DIVISION OF CORRECTIONAL SERVICES
COLORADO STATE REFORMATORY

LETTER OF COMMENTS AND RECOMMENDATIONS

JUNE 30, 1975

December 3, 1975

The Honorable John P. Proctor, C.P.A.
State Auditor, State of Colorado
Denver, Colorado

During our examination of the financial statements of the Colorado State Reformatory for the years ended June 30, 1973, 1974 and 1975, we reviewed procedures and internal controls in use. In addition, we reviewed prior audit recommendations and actions taken by the Reformatory on those recommendations. Our comments follow.

PRIOR RECOMMENDATIONS AND THEIR DISPOSITION

<u>Recommendation</u>	<u>Disposition</u>
<u>ACCOUNTS RECEIVABLE</u>	
1. Mail statements monthly.	Recommendation <u>was not</u> implemented at date of our examination. Implementation scheduled for November 30, 1975.
<u>ACCOUNTS PAYABLE</u>	
2. Have computer center issue a monthly report consisting of a year-to-date summary of vouchers by individual vendors.	Recommendation <u>was not</u> implemented. Recommendation no longer applicable.
<u>JOURNAL VOUCHERS</u>	
3. Establish a procedure for review and approval of journal vouchers by an individual other than the preparer.	Recommendation <u>was not</u> implemented as to the in house general ledger. As of July 1, 1975, the agency converted to the State central accounting system. All input documents are reviewed and approved in the Division of Corrections.

Recommendation

Disposition

LEDGERS, REGISTERS AND COMPUTER PRINT-OUTS

- | | |
|---|--|
| 4. Properly label the various ledgers, registers and print-out to improve efficiency. | Recommendation <u>was</u> implemented. |
|---|--|

PERSONNEL FILES

- | | |
|--|--|
| 5. Maintain current and complete personnel files at the Institution. | Recommendation <u>was</u> implemented. |
|--|--|

FEDERAL GRANTS

- | | |
|---|---|
| 6. Request a 10% overhead cost reimbursement on project costs of the LEAA grants. | Recommendation <u>was</u> implemented. However the Division of Criminal Justice disallowed that request. |
| 7. The State should combine LEAA programs common to several institutions, such as work release, under the Department of Institutions. | Recommendation <u>was not</u> implemented by appropriate state agency at examination date. Implementation is scheduled for January 1, 1976 under the Office of Parole and Community Services. |

RENTAL RATES FOR STATE OWNED LIVING QUARTERS

- | | |
|---|--|
| 8. The State Controller should review the 1964 rates and update them. | Recommendation <u>was</u> implemented. |
|---|--|

GENERAL FIXED ASSETS

- | | |
|--|--|
| 9. All land and buildings inventory should be converted to computerized records. | Recommendation <u>was not</u> implemented. Agency subsidiary records reconcile to the general ledger accounts of the State central accounting system. Recommendation no longer applicable. |
| 10. Use authoritative outside documentation to value donated assets, instead of internal valuation procedures. | Recommendation intent <u>was</u> implemented. |

FINANCIAL REPORTS

- | | |
|---|---|
| 11. Forms should be reviewed and meaningfulness evaluated. Clerical accuracy and importance of reconciliation should be stressed. | Recommendation <u>was</u> implemented during our examination. |
|---|---|

Recommendation

Disposition

CANTEEN AND LIBRARY FUND

- | | |
|--|--|
| 12. Various change and petty cash funds should be segregated instead of being maintained in one box under control of one individual. | Recommendation <u>was</u> implemented. |
| 13. Prepare equipment ledger for this fund. | Recommendation <u>was</u> implemented. |

ENCUMBRANCES

- | | |
|--|--|
| 14. Encumbrances should be liquidated promptly after merchandise or services are received. | Recommendation <u>was</u> implemented. |
|--|--|

STATUTES AND REGULATIONS

We reviewed the Colorado Revised Statutes 1973 which seemed to apply to the Reformatory. Insofar as we can determine, without legal opinion, there is no evidence of any act of non-compliance with the Statutes.

We reviewed the Controller's Fiscal Rules. The institution appeared to be in compliance with all fiscal rules except for Chapter 3 Sections 1.00 through 7.00, pertaining to accounting principles and standards, financial statements, agency accounting system and conversion to the central accounting system.

At the time of audit assignment in May, 1975, the agency had not prepared an agency general ledger for the fiscal years ended June 30, 1973, 1974 or 1975. Additionally, the agency had not converted to the central accounting system and had not prepared financial statements for the periods to be examined. The agency had not reconciled cost distribution computer runs from the Department of Institution to the computer runs by budget class from the Division of Accounts and Control, and had not reconciled appropriations and allotments to Accounts and Control totals for any of the three years.

With the assistance of a chief accountant from the Division of Finance, who has been at the Reformatory almost full time since May, agency transactions were journalized and/or summarized for each of the three annual periods, agency general ledgers were posted and trial balances were prepared. The agency records for the three years under examination were completed on September 21, 1975.

The 1975 agency accounting status appeared to be exactly identical to the 1972 status when a two-year examination was performed, and the same chief accountant from the Division of Finance came to the agency to prepare records for the years under examination.

In the three year period since 1972, the agency received an increase of two positions on the accounting department staff, including a senior accountant

in the fall of 1973, but no changes were accomplished in the area of appropriation accounting.

Since completion of agency records through June 30, 1975, agency finance and accounting personnel and Division of Finance personnel have concentrated on updating 1975-76 records and, with the assistance of field representatives from Accounts and Control, have converted to the State central accounting system, except for payroll preparation, warehouse inventory and issues and the cost distribution system, all of which are on the Department of Institutions computer.

There exists a firm understanding within the Division and Agency that all pertinent totals and balances are to be reconciled monthly and all necessary adjustments are to be made promptly, so that the central accounting system general ledger and other print-outs may continually furnish current and correct information to both the agency and the controller.

Recommendations

1. The Division of Corrections - State Reformatory should comply with all fiscal rules including Chapter 3 relating to accounting principles and standards, financial statements, agency accounting system and conversion to the central accounting system.
2. The Division of Finance and/or the Division of Correctional Services of the Department of Institutions should periodically, at least quarterly in the 1975-76 and 1976-77 fiscal years, review accounting procedures and status in detail at the Reformatory to prevent any recurrence of the accounting condition which has been found on the last two audit assignments.

FEDERAL GRANTS

Our examination did not reveal any act of non-compliance with terms of the Federal grants in which the agency participated.

Under financial statement footnote "F" we have called attention to Federal grant money transactions which have no Reformatory fiscal effect.

UNAUTHORIZED PROGRAM OR ACTIVITY

Our examination did not reveal any program or activity not authorized by the General Assembly.

FINANCING CONTROL AND PROCEDURES

On an overall basis, the Reformatory did not have records during the three years under examination to provide conventional controls of funds or accountability for funds.

However, the memo controls and recaps used during those years did reflect a proper handling of funds and furnished a basis for belated record preparation.

Our examination, which became quite detailed in numerous areas, did not disclose any fiscal misuse or any funds that could not be accounted for.

Recently redesigned formats for original recording of cash and revenues, together with the input documents for the central accounting system and the Controller's print-outs should give the agency excellent control of funds and accountability for funds.

CONTROLLED MAINTENANCE

The Reformatory records of this fund, controlled by the Department of Public Works, were reviewed but not examined.

INTERNAL CONTROL

Cash receipts and disbursements were handled by an accounting department employee, who engaged in some of the general accounting function and also prepared deposits and reconciled the bank accounts.

No control account existed for accounts receivable.

Totals of expenditures by cost centers were not reconciled to totals of expenditures by budget class.

Appropriations and allotments were not reconciled to Controller's records.

During 1972-73 and 1973-74 the total of the residents' individual ledger cards was not reconciled to the total shown on the transactions summary card (which is intended to be a control card) or the residents' bank account balance. During this period three different unreconciled amounts could and did show as the total of residents' funds in trust at any date.

At June 30, 1975 the payroll bank account was out of balance and had been since October 1973.

Upon testing June 30, 1975 miscellaneous payroll deduction we noted a payroll deduction for room rental from an employee not shown elsewhere as living in State quarters. Follow up disclosed that the employee was transferred to the Reformatory in June 1974 and occupied a room for a portion of a month at that time, and the payroll deduction had been taken from his check for twelve months after he moved into his own private residence without anyone noticing the discrepancy.

In 1974-75 the employee processing and posting residents' accounts did trace out previous errors and make the necessary adjustments so that the tape of subsidiary accounts, the control card and the bank balance were in agreement.

All other items listed above under internal control were corrected during our examination.

Recommendations

3. The person in the new cashier position now has no duties assigned in the areas of opening mail, posting accounts receivable, preparing cash receipts and sales journals or recon-

ciling bank accounts. Reformatory accounting supervision should see that such separations of duty continue to be maintained.

4. The control account for accounts receivable should continue to be reconciled to subsidiary accounts on a monthly basis, and statements should be mailed monthly.
5. Expenditure runs by budget class from the Controller should continue to be reconciled monthly to expenditure runs by cost centers.
6. Appropriations and allotments should continue to be reconciled monthly to the Controller's records.
7. The residents' accounts should continue to be reconciled to the control monthly.
8. All bank accounts should continue to be reconciled monthly.

FINANCE AND ACCOUNTING IN GENERAL

Upon our entry to the Institution to begin the examination we found the record status as summarized under "Statutes and Regulations". As we performed the examination we encountered internal control deficiencies, a number of which are listed in the foregoing "Internal Control" section.

Additionally, we found a number of physical deficiencies in the accounting department which had to be detrimental to the efficiency of the six accounting employees working in one room:

Two NCR posting machines were located at one side of the end of the room, and the noise from them was distracting.

A Xerox copy machine was located at the other side of the end of the room, and was used by all administration building personnel, as well as by inmates performing work for officers in the wings and in various work locations. The users of the Xerox moved along the aisle formed by three desks on each side.

A coffee set-up was just a few feet forward from the Xerox and was used by most of the personnel in the administration building. Again, all the coffee drinkers had to walk near to all six desks in the room.

The Reformatory switchboard was located in the accounting office. The necessary switchboard conversation plus necessary relief by other accounting personnel seemed to be a disturbing factor.

All petty cash, restaurant cash and other cash transactions were performed in the accounting department with accounting personnel.

The residents' account desk was in the rear of the room and we noticed quite heavy inmate traffic moving the entire length of the room.

At the time of the June 30 and July 31 payrolls we noticed that employees starting coming into the office at 8:00 A.M. and that the stream kept up until noon. Employees who came in on their day off seemed to have to talk to everyone in the office. The on-duty employees who came in disturbed the office personnel, even though they did not talk, simply by having to move down the aisle between all six desks.

Our observation of the accounting department staff was that they were all capable of performing their duties, but that they simply did just that and no one coordinated their work.

Our observations of the senior accountant were (1) that he knew the theory of the central accounting system very well but simply would not put out the effort to make the conversion, (2) he was not knowledgeable about the older institution accounting system and made no attempt to familiarize himself with it, and (3) he seemed unable to coordinate the accounting activities.

Our observation of the business manager was that he was competent, but that he was spending so much of his time on his duties of maintaining harmonious relationships with divisions of the Institution and other agencies, assisting in administrative planning, counseling residents and acting for the warden in all areas of the institution, that he did not have time to perform the accounting department portion of his duties.

In the attempt to identify the problem areas and to arrive at solutions to correct the problems, a number of conferences were held involving the warden, the business manager, accounting department personnel, personnel from the Department of Institutions Division of Finance and Division of Correctional Services, a Principal State Auditor, personnel from the State Controller's Field Services Division and ourselves.

All participants in those conferences gave their full cooperation to the project of correcting the accounting department problems and implementing a system under conditions which would permit timely and proper functioning of the department.

The Department of Institutions Divisions have permitted the Chief Accountant for the Division of Finance to remain at the Reformatory far beyond the original assignment which was to assist with fiscal years 1972-73 and 1973-74. A member of the staff of the Division of Finance reviewed positions and duties.

A field representative from the State Controller's office has spent considerable time assisting agency personnel to develop charts of accounts, design forms for original entry and make the conversion to the State of Colorado central accounting system.

The business manager is currently spending a substantial amount of his time in the accounting department.

A competent resident has been assigned to assist accounting personnel in the preparation of analyses, schedules and other supporting documentation.

The switchboard has been moved to the lobby area and is now staffed by female

residents transferred from the Women's Correctional Institution. This action will have the effect of increasing the accounting staff by part-time of one position and eliminating a department distraction.

Utilizing the part-time resulting from the switchboard operator change and transferring cashier duties from another accounting position, a full time cashier duty position has been established.

A partition has been placed around the machine posting area, the resident accounting area and a cashier area. A teller window has been opened up into the corridor. The small amount of finish work remaining should be complete by December 15, 1975. These actions will eliminate the distractions from the noise of the posting machines, from the inmate traffic and from all other cashier traffic.

The use of the Xerox machine has been restricted both as to the number of copies and access to users. A substantial amount of the use that had been distracting has now been transferred to the print shop.

The coffee set-up has been moved up beside the entrance door so that the distraction from coffee drinkers has been substantially reduced.

The senior accountant has resigned, and a replacement is now being sought.

The 1975-76 records have been brought up to date, adjusted and converted to the central accounting system. As of November 30, 1975 the accounting situation appeared to be well in hand and operating fairly smooth for such a rapid conversion.

If the incoming senior accountant proves to be willing and competent, we would not expect any major problems in future accounting operations.

Recommendations

9. The Reformatory should make necessary physical changes to the accounting section office.
10. The present assignment of accounting department overall supervision to the business manager by the warden should be continued even though the incoming senior may be highly competent.
11. The Business Manager should effectively monitor the operation of the Accounting Division.
12. Reformatory payroll checks should be distributed to employees by mail rather than by the present method of hand distribution. Such a change should contribute further to the efficiency of accounting personnel.
13. We encourage the Department of Personnel and the Division of Corrections to expedite hiring of the Senior Accountant.

As discussed in Note F to the financial statements, certain appropriations were made which appeared to cause state funds to be ~~supplemented~~ by federal funds. *supplanted*

Recommendations

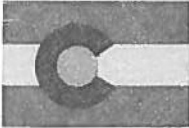
14. The Joint Budget Committee should review such appropriations to assure compliance with appropriate Federal Restrictions.

GENERAL

Our tests did not disclose any evidence of embezzlement or misappropriation of funds. However, since our examination was made by testing and sampling of entries and accounts, it would not necessarily disclose embezzlement or misappropriation of funds should any exist.

McDonald, Halbig and Associates, Inc.

STATE OF COLORADO



RICHARD D. LAMM
GOVERNOR

DEPARTMENT OF INSTITUTIONS

RAYMOND LEIDIG, M.D. - EXECUTIVE DIRECTOR

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DIVISION OF CORRECTIONAL SERVICES

RUDY SANFILIPPO - DIRECTOR

December 19, 1975

Legislative Audit Committee
State Capitol Building
Denver, Colorado 80203

Sirs:

The following represents the Department of Institutions response to the audit report of Division of Corrections - Colorado State Reformatory for the three years ended June 30, 1975.

The Department would like to thank Kevin Moore for his outstanding help during this audit.

Raymond Leidig, M.D.
Executive Director

George B. Delaney
Division Business Manager

C. Winston Tanksley
Reformatory Superintendent

Timothy J. Smith
Institutions Finance Chief

Phillip R. DeLuca
Reformatory Assistant Superintendent
Business

Gerald L. Agee
Chief of Corrections

Recommendations			Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
Report Page Ref.	No.		See Comments	Requires Legislative Action	Imple- mented*	To Be Imple- mented*	Deferred **	Rejected **
13	1.	The Division of Corrections - State Reformatory should comply with all fiscal rules including Chapter 3 relating to accounting principles and standards, financial statements, agency accounting system and conversion to the central accounting system.				9-1-76		
13	2.	The Division of Finance and/or the Division of Correctional Services of the Department of Institutions should periodically, at least quarterly in the 1975-76 and 1976-77 fiscal years, review accounting procedures and status in detail at the Reformatory to prevent any reoccurrence of the accounting condition which has been found on the last two audit assignments.				1-1-76		
14	3.	The person in the new cashier position now has no duties assigned in the areas of opening mail, posting accounts receivable, preparing cash receipts and sales journals or reconciling bank accounts. Reformatory accounting supervision should see that such separations of duty continue to be maintained.			Concur			
14	4.	The control account for accounts receivable should continue to be reconciled to subsidiary accounts on a monthly basis, and statements should be mailed monthly.			Concur			
14	5.	Expenditure runs by budget class from the Controller should continue to be reconciled monthly to expenditure runs by cost centers.			Concur			
14	6.	Appropriations and allotments should continue to be reconciled monthly to the Controller's records.			Concur			

Recommendations			Check Appropriate Boxes (*Include Date) (**If checked-explain in comments)					
Report Page Ref.	No.		See Comments	Requires Legislative Action	Imple- mented*	To Be Imple- mented*	Deferred **	Rejected **
15	7.	The residents' accounts should continue to be reconciled to the control monthly.			Concur			
15	8.	All bank accounts should continue to be reconciled monthly.			Concur			
17	9.	The Reformatory should make necessary physical changes to the accounting section office.			12-15-75			
17	10.	The present assignment of accounting department overall supervision to the business manager by the warden should be continued even though the incoming senior may be highly competent.			Concur			
17	11.	The Business Manager should effectively monitor the operation of the Accounting Division.			12-15-75			
17	12.	Reformatory payroll checks should be distributed to employees by mail rather than by present method of hand distribution. Such a change should contribute further to the efficiency of accounting personnel.			10-1-75			
17	13.	We encourage the Department of Personnel and the Division of Corrections to expedite hiring of the Senior Accountant.			Concur			
18	14.	The Joint Budget Committee should review such appropriations to assure compliance with appropriate Federal Restrictions.			Concur			