

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 1995**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
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INTRODUCTION

REPORTING ENTITY

The Department of Corrections at March 31, 1995 was comprised of four divisions. The structure of the Department is discussed in the following section. For the purpose of this audit and audit report, the reporting entity is the Correctional Industries, including the Vocational Training Trust Fund, of the Department of Corrections of the State of New Hampshire. The financial statements of the Department of Corrections - Administration and the Department of Corrections - trust and agency funds, excluding the Vocational Training Trust Fund are subjects of separate audits and reports for the nine months ended March 31, 1995. Copies of these reports can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, NH 03301.

BACKGROUND AND ORGANIZATION

The Department of Corrections was established on July 1, 1983 pursuant to RSA 21-H. RSA 21-H merged the Departments of Probation and Parole and the New Hampshire State Prison, all three of which had previously operated autonomously. The Department of Corrections is charged with maintaining and administering correctional facilities and programs for the benefit and rehabilitation of inmates. In addition, the Department is responsible for the supervision of all individuals placed on probation or released on parole and acts as an advisor to law enforcement agencies and communities in the prevention of crime.

The Department of Corrections is headed by a Commissioner who is appointed by the governor and serves as the Department's chief administrative officer. The Commissioner is responsible for the management of all Department operations, including the administration and enforcement of all laws by which he or the Department is governed.

The Office of the Commissioner is responsible for the overall administration and operation of the Department. The Office oversees the four Divisions of Administration, Adult Services, Field Services, and Medical and Psychiatric Services. In addition, the Adult Parole Board, established by RSA 651-A:3, is administratively attached to the Office of the Commissioner.

INTRODUCTION (Continued)

CORRECTIONAL INDUSTRIES

Correctional Industries is an organization within the Bureau of Training, Industries and Education in the Division of Adult Services of the Department of Corrections. The mission of Correctional Industries is "to enhance public order and safety by integrating effective and efficient training and education for its inmates. This process will reduce inmate idleness, enhance job seeking and keeping skills and provide opportunities for self improvement."

Correctional Industries consists of ten shops including: Sign, Print, Wood, Plate, Farm, Data Processing, Off Highway Recreational Vehicle (OHRV), Electronic, Furniture, and Tailor and a business office. Also in the Bureau are the vocational education and training shops including: Auto Mechanics, Small Engines, Auto Body, Building Trades, Culinary Arts, Technical Education, Horticulture, and Business Office Occupations.

FUNDING

Correctional Industries is accounted for in the General Fund of the State of New Hampshire and is funded by General Fund appropriations and sales of goods and services. Except for certain salaries and benefits, all Correctional Industries' revenues and expenditures are recorded in the Correctional Industries' Inventory Account, a General Fund revolving account.

During the nine months ended March 31, 1995, Correctional Industries' sales totaled approximately \$1.28 million. Total expenditures were approximately \$1.77 million of which \$491,000 were budgeted expenditures and the remainder, \$1.28 million, were expenditures recorded in the revolving account. The available balance in the revolving account as reported in the state's accounting records at March 31, 1995 was (\$234,000) which represents a deficit in the account. This deficit is offset at March 31, 1995 by accounts receivable of \$289,000 and consumable inventory of \$389,000, that are not reported on the state's interim accounting reports, and \$323,000 of recorded unliquidated encumbrances, providing an adjusted revolving account surplus at March 31, 1995 of \$767,000.

The Vocational Training Trust Fund is an expendable trust fund of the State of New Hampshire that is used by the Bureau to purchase inventory, supplies, and equipment for use in its vocational training programs. The source of funding for the Vocational Training Trust Fund is payments from customers of the vocational shops who pay cost plus a markup on cost for materials used in work performed by the shops.

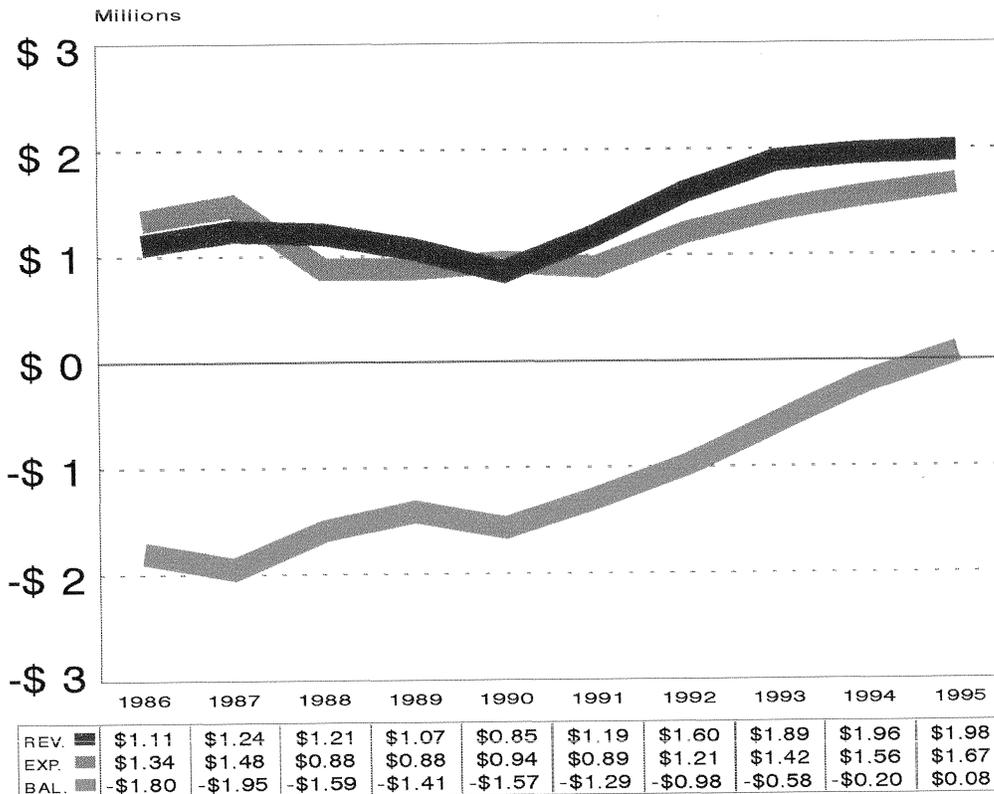
During the nine months ended March 31, 1995, revenues and expenditures in the Vocational Training Trust Fund totaled \$125,416 and \$128,955, respectively. At March 31, 1995, the fund balance in the account was \$54,095.

INTRODUCTION (Continued)

INVENTORY REVOLVING ACCOUNT

Since its inception in 1980 and prior to fiscal year 1995, the Correctional Industries' Inventory Account has ended each fiscal year with a negative available balance. The following chart illustrates the recent trends in the negative available balance (deficit) and the revenues and expenditures recorded in the Account. In the ten-year period 1986 to 1995, the deficit reached a high of \$1.95 million at June 30, 1987 and decreased over the next eight years eventually reaching a \$78,000 positive available balance (surplus) at June 30, 1995. The available balance in the Account as reported in the state's accounting records understates the actual balance in the Account. The available balance as reported in the state's accounting records at each fiscal year end is net of unliquidated encumbrances and also does not include the value of the Industries' consumable inventory on hand but does include accounts receivable.

DOC-CORRECTIONAL INDUSTRIES
INVENTORY REVOLVING ACCOUNT-REVENUES, EXPENDITURES, AND AVAILABLE BALANCE



SOURCE: YEAR-END STATEMENTS OF APPROPRIATIONS-1986 THROUGH 1995

INTRODUCTION (Continued)

PRIOR AUDITS

The most recent prior audit of the Correctional [Prison] Industries of the Department of Corrections was for the eighteen months ended December 31, 1986. The appendix to this report on page fifty-one contains a summary of the current status of the observations contained in that prior audit report.

In addition to the audits mentioned on page one of this report, the Office of Legislative Budget Assistant also issued a performance audit dated April 1992, titled *State of New Hampshire Prison Expansion*. Copies of these reports can be obtained from the Office of the Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, NH 03301.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal control structure related to Correctional Industries in place at the Department of Corrections and tested the Department's compliance with certain provisions of applicable state laws and regulations. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal Control Structure
- Revenues
- Expenditures
- Equipment
- Inventory
- State Compliance.

Our reports on the internal control structure, state compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statements are contained in the report that follows.

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AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Correctional Industries, including the Vocational Training Trust Fund, of the Department of Corrections of the State of New Hampshire, as of and for the nine months ended March 31, 1995, and have issued our qualified report thereon dated June 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Department of Corrections is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Correctional Industries of the Department of Corrections for the nine months ended March 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those matters that we consider to be reportable conditions are described on the following pages.

REPORTABLE CONDITIONS

OBSERVATION NO. 1 - LACK OF INTERNAL CONTROLS OVER ACCOUNTS RECEIVABLE ALLOWING OVERDUE ACCOUNT BALANCES

OBSERVATION:

- The following issues were noted during our evaluation of the internal control structure over revenue and accounts receivable in the Correctional Industries and the Vocational Training Programs at the State Prison.
 - A. There is no policy and procedures directive (PPD) that addresses selling Correctional Industries merchandise and services on credit terms.
 - PPD 7.2 paragraph D.3., specific to the Vocational Training Program sales, states that "All customers, except state, city, or county agencies are expected to pay for merchandise and/or services upon receipt. Billing terms for employees of state, city, or county will not exceed thirty days." There is no PPD that addresses credit terms for the sale of Correctional Industries merchandise and services.
 - B. There are a significant number of accounts receivable that are excessively past due indicating a lack of an effective procedure for following up on delinquent accounts.
 - The Correctional Industries accounts receivable aging report as of February 28, 1995, the date of audit testing, reported the following.

	Current Accts	DAYS PAST DUE					Total Past Due	Total Due
		1-30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days		
Employees	\$ 502	\$ 280	\$ 62	\$ 340	\$ 9	\$ 3,412	\$ 4,103	\$ 4,605
Other	97,204	80,214	58,429	15,298	8,580	53,884	216,405	313,609
Total	\$97,706	\$80,494	\$58,491	\$15,638	\$8,589	\$57,296	\$220,508	\$318,214

- The February 28, 1995 accounts receivable aging report indicates that \$220,508 or 69% of the total \$318,214 accounts receivable is past due. Overdue accounts were owed by state agencies, local government entities, businesses, individuals and also current and former employees of the Department of Corrections (DOC). Included in the listing of overdue accounts are invoices owed by state agencies that were dated prior to July 1, 1994.

**OBSERVATION NO. 1 - LACK OF INTERNAL CONTROLS OVER ACCOUNTS RECEIVABLE
ALLOWING OVERDUE ACCOUNT BALANCES (Continued)**

OBSERVATION (Continued):

- Twenty-seven current or former Department of Correction employees were responsible for \$4,103 of the overdue accounts receivable. The accounts receivable from 17 of these current or former employees were over 120 days past due. The Correctional Industries employee who is responsible for accounting duties related to revenue and accounts receivable had a balance due the Correctional Industries account of \$520. The entire amount owed by this individual was over 120 days past due.

- The Vocational Training Trust Fund at March 17, 1995, the date of audit testing, had \$4,460 of accounts receivable that were past due. Sixty-four percent of this overdue balance was owed by DOC employees. The Correctional Industries employee who is responsible for accounting duties related to revenue and accounts receivable in the Vocational Training Trust Fund owed \$268. The entire amount owed by this individual was over 120 days past due with one invoice dated June 12, 1992.

RECOMMENDATION:

- Correctional Industries should review and revise as necessary its policies and procedures for controlling accounts receivable.
 - A. A PPD should be written to address the customer billing and collection procedures for merchandise and services sold by Correctional Industries. The policies and procedures relating to credit sales of both the Correctional Industries and the Vocational Training programs should be clearly explained in the PPDs including procedures for following up on delinquent accounts.
 - B. Correctional Industries should develop and implement procedures to limit the amount of accounts receivable that become delinquent. Action should be taken to collect accounts receivable before they become excessively delinquent. Individuals or entities that have delinquent accounts should not be allowed further credit until the arrearage is cleared.

AUDITEE RESPONSE:

- NHCI concurs there was a general lack of follow-up on Accounts Receivable that were past due. Subsequent to this observation PPD #3.24 has been issued which details the process for collecting past due accounts culminating with small claims court if necessary. Invoices were designed which clearly state that net payment is expected within 30 days. Reports are generated monthly detailing the status of each invoice over 60 days past due and are distributed to DOC Fiscal Management and the Administrator of Training, Industries, and Education. In addition, a monthly delinquent customer list is generated and distributed to each shop with instructions not to accept any orders from these customers.

OBSERVATION NO. 2 - CORRECTIONAL INDUSTRIES' EQUIPMENT AND DEPRECIATION ACCOUNTS

OBSERVATION:

- At March 31, 1995 the Correctional Industries' internal balance sheet reported \$194,412 in equipment with \$157,604 of accumulated depreciation on that equipment. The Department of Corrections at March 31, 1995 reported that the Correctional Industries' equipment balance was \$1,153,686. The difference between these two reported amounts is the source of funding. Correctional Industries only reports equipment on its internal balance sheet that was purchased from the Correctional Industries revolving account.

In order to determine whether there were adequate records to audit the reported equipment and accumulated depreciation amounts we asked Correctional Industries' personnel to provide the detail listings and schedules supporting its reported amounts. Correctional Industries was unable to do so. The lists that were provided did not include equipment identification numbers and in some instances provided no description of the equipment to support the cost amount included in the equipment balance. It was also noted that the last date that equipment was added to the list was June of 1993 even though equipment has been purchased from the Correctional Industries revolving account since that time.

RECOMMENDATION:

- Correctional Industries needs to perform a complete inventory of the equipment that has been purchased from the revolving account. The inventory should include recording equipment identification numbers, descriptions, locations, costs, and any additional information necessary to support the reported balances.

Correctional Industries should develop and implement a system to ensure that all new equipment purchased from the revolving account is properly identified, documented, and tracked so that the reported balances in the equipment and accumulated depreciation accounts are properly stated.

AUDITEE RESPONSE:

- Subsequent to 1992 NHCI can and does identify equipment that is depreciable and is reflected on the financial statements. However, prior to 1992 some equipment that is reflected on NHCI records can not be specifically identified. Since this equipment has been fully depreciated, the matter is inconsequential. All NHCI equipment is accounted for annually on the DOC Master List. Going forward NHCI will ensure all equipment purchased from the Revolving Account can be properly identified and reconciled to the Master DOC Equipment Inventory Listing. In the past, some equipment had been currently expensed as opposed to being carried as depreciable equipment. This

**OBSERVATION NO. 2 - CORRECTIONAL INDUSTRIES' EQUIPMENT AND DEPRECIATION
ACCOUNTS (Continued)**

AUDITEE RESPONSE (Continued):

equipment was generally relatively inexpensive and/or which quickly became obsolete, such as computer equipment. NHCI will adopt guidelines with regard to which equipment to expense and which to depreciate.

OBSERVATION NO. 3 - CONTROL OVER REPORT OF SHIPMENT DOCUMENTS

The Correctional Industries' business office, retail store, and shops use Report of Shipment (ROS) documents to initially record sales of products or services. Information recorded on the ROS includes the service or merchandise ordered, the amount charged, and the signature of the customer acknowledging receipt of the product or service. A copy of the ROS is sent to the business office where it serves as the basis for the generation of an invoice for credit sales. The ROS documents are prenumbered and a log is maintained to record the issuance of ROS document numbers.

OBSERVATION:

- The following issues were noted where the control provided by the prenumbered ROS documents was not utilized by Correctional Industries.
 - Some of the ROS documents used by the Retail Store during the audit period were not listed in the log of ROS documents issued. According to the individual responsible for logging the ROS documents, the ROS documents were not logged in error.
 - The furniture and the electronics shops are issued a single series of ROS documents. Because the ROS document numbers are not assigned by shop it is not possible to account for each shop separately by ROS series number.
 - The entire series of ROS document numbers is not accounted for to ensure that all sales are properly recorded.

RECOMMENDATION:

- Internal controls over sales would be strengthened if Correctional Industries utilized the control feature provided by the prenumbered ROS documents. All issued ROS documents should result in recorded sales unless the document is appropriately voided.

OBSERVATION NO. 3 - CONTROL OVER REPORT OF SHIPMENT DOCUMENTS (Continued)

AUDITEE RESPONSE:

- NHCI concurs that prenumbered Report of Shipment documents be appropriately accounted for. However, the use of the ROS document at the Retail Store is not intended to result in a billing since sales are made by cash or check. Instead, the use of the ROS document at the Retail Store is to provide the customer with a receipt of purchase without creating another form. A single series of ROS's is issued to the Furniture and Electronics Shops because both shops are supervised by the same manager. Although a single series can be adequately accounted for, it is cumbersome for Auditors to perform single shop testing.
- NHCI will issue the Furniture and Electronic Shops their own series of ROS's. Managers have been given written instructions to strictly account for all ROS numbers, including voided ones. Currently, the new automated invoicing system tracks all ROS's issued to Industry Shops. NHCI will create another form to act as a Retail Store Sales Receipt.

OBSERVATION NO. 4 - INDEPENDENT COUNT OF THE CONSUMABLE INVENTORY

OBSERVATION:

- It is a tenet of effective internal control procedures to have the periodic physical inventory or count of consumable inventory performed by individuals that are otherwise independent of the control over those assets.

The Correctional Industries' shop managers, who are responsible for maintaining the consumable inventory throughout the fiscal year, are also responsible for conducting the physical counts of those inventories at fiscal year end.

RECOMMENDATION:

- Internal controls over consumable inventory would be strengthened if individuals otherwise independent of inventory control procedures and responsibilities performed the annual physical counts of the inventory.

AUDITEE RESPONSE:

- NHCI agrees conceptually with the rationale of independent consumable inventory counts, however practically is not feasible or effective. By the nature of various industries materials, one has to be an expert in the particular field to accurately make a count. For example, wood is counted by the board foot. One has to determine how much of a board

OBSERVATION NO. 4 - INDEPENDENT COUNT OF THE CONSUMABLE INVENTORY
(Continued)

AUDITEE RESPONSE (Continued):

is usable as defined by an industry standard, accurately measure, determine the type of wood, and make a calculation to come up with a wood inventory. To have this done by someone who is not an expert in the area would lead to erroneous counts. Other shops have similar situations, it is not as simple as counting widgets. Shops when doing physical inventory validate the inventory by two separate counts utilizing either another staff person or inmate employee. During the year "spot inventory counts" are made by the Stock Supervisor. Since NHCI closes shops during physical inventory, disrupting production and training, additional controls in this area are not either reasonable or practical without losing time and money.

OBSERVATION NO. 5 - REVIEW OF THE HISTORY FILE - CONSUMABLE INVENTORY EDP
SYSTEM

OBSERVATION:

- Correctional Industries' consumable inventory records are maintained on an IBM System 34 computer. Operators of the system include civilian personnel as well as inmate personnel. To gain access to the system the user must key a four character user identification and a four character password. The system maintains a history file that logs the user identification and the programs accessed. This user history file is reviewed daily by the data processing supervisor. After the file is reviewed, the file is purged and a new file is started. There is no documentation maintained to support that the review was performed or the results of the review.

RECOMMENDATION:

- Internal controls over the consumable inventory system would be strengthened if documentation to support the review of the user history file was maintained.

AUDITEE RESPONSE:

- Currently, the history file is reviewed daily by the Data Processing supervisor and purged without a hard copy being maintained. Process has been changed to include filing an initialed hard copy.

OBSERVATION NO. 6 - VOCATIONAL TRAINING TRUST FUND PURCHASING OF PARTS AND MATERIALS

OBSERVATION:

- The Department of Corrections operates vocational training programs for the educational and training benefit of the inmates. Certain issues were noted during our study and evaluation of the internal control structure over the purchasing of parts and materials for the vocational training programs.
 - A. Policy and Procedure Directive (PPD) 7.2 IV. B. 2. requires the instructor or shop staff to obtain approval from the Vocational Training Supervisor prior to ordering parts. Correctional Industries has formal purchase orders and requisition forms for use in ordering parts. Based on our review, prior approval is not consistently documented as having been obtained and the formal purchase order and requisition forms are not consistently being used for the purchase of parts.
 - B. Parts and materials purchased for use in the shops are generally purchased on account and are billed to the Department of Corrections monthly. PPD 7.2 IV. C. requires the training instructors to note on the vendor invoices the related customer for whom the parts and materials were purchased prior to the payment on the invoice. This matching of vendor invoices to the vocational training shops' parts cards or customer invoices is intended to ensure that all parts billed by the vendors are included in work to be paid for by the vocational shops' customers. This matching of vendor invoices to jobs is not consistently performed.
 - C. Seven out of a sample of twenty expenditures included expenditures related to the 10% Shop-Use, consumable supplies accounts. PPD 7.2 IV. G. directs that invoices related to these accounts are to be authorized by one of four listed individuals. Four of the seven sample items did not have this authorization documented.

RECOMMENDATIONS:

- The Department of Corrections should increase its controls over purchasing parts and materials for the Vocational Training Shops by ensuring that the following control procedures are adhered to.
 - A. The vocational training shops should consistently use the standard purchase order or requisition form to document and support the purchase of parts and materials for individual customers. The forms should provide documentation of appropriate approval sign-offs to comply with the PPD mentioned above and also help to ensure that only approved parts and materials are purchased.

OBSERVATION NO. 6 - VOCATIONAL TRAINING TRUST FUND PURCHASING OF PARTS AND MATERIALS (Continued)

RECOMMENDATIONS (Continued):

- B. Parts and materials included on vendor invoices should be consistently compared to shop parts cards or vocational shop customer invoices to ensure that all parts billed by vendors are properly accounted for.
- C. Invoices related to 10% Shop-Use Accounts should have approvals as required by the PPD. These approvals should be documented in the accounting records.

AUDITEE RESPONSE:

- Vocational Training concurs and has implemented a more stringent control over its purchasing process, matching vendor invoices to customer invoices in accordance to PPD #7.2. Any 10% expenditure not billed to a customer is appropriately authorized.

OBSERVATION NO. 7 - RECEIPT OF INVENTORY AND POSTING RELATED ACCOUNTS PAYABLE

OBSERVATION:

- An expenditure or obligation is usually recognized when an organization has received and becomes liable for goods and services. That is, an expenditure or obligation is generally recognized in the period in which the amount can be objectively measured, the goods or services are delivered or received, and title has passed.

Correctional Industries does not recognize an obligation for the receipt of consumable inventory and does not report the acceptance of the material into inventory until the invoice for the material is received and the invoice is paid. By delaying the recognition of the receipt of the inventory and the related obligation until the invoice is paid, Correctional Industries understates both its consumable inventory and its accounts payable by the amount of inventory that has been received but not yet paid for.

RECOMMENDATION:

- Correctional Industries should process accounts payable and inventory transactions based on the receipt of inventory and not on the payment for the inventory.

OBSERVATION NO. 7 - RECEIPT OF INVENTORY AND POSTING RELATED ACCOUNTS
PAYABLE (Continued)

AUDITEE RESPONSE:

- NHCI concurs that accrual of Accounts Payable is appropriate particularly given the rapid growth in Industries and the increasing amount of material being handled. In the past this practice would have had only a minimal impact on the Balance Sheet. NHCI will review this matter to see how best to utilize it's scarce financial and human resources to implement this procedure.

OBSERVATION NO. 8 - ENDORSEMENT OF CHECKS UPON RECEIPT

OBSERVATION:

- One individual in the Correctional Industries business office opens the mail and records any receipts on an A-15, Record of Daily Receipts. The A-15 and related receipts are transferred to a second individual in the business office who restrictively endorses the checks and prepares the deposit.

All checks received in payment should be restrictively endorsed upon receipt prior to being transferred to other individuals in the business office.

RECOMMENDATION:

- Internal controls over the receipt process would be strengthened if the individual who opens the mail also restrictively endorsed the checks as received.

AUDITEE RESPONSE:

- NHCI concurs and will restrictively endorse each check as it is opened.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management of the New Hampshire Department of Corrections and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 30, 1995

AUDITOR'S REPORT ON STATE COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Correctional Industries, including the Vocational Training Trust Fund, of the Department of Corrections of the State of New Hampshire, as of and for the nine months ended March 31, 1995, and have issued our qualified report thereon dated June 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state laws, regulations, and contracts applicable to the Correctional Industries of the New Hampshire Department of Corrections is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the New Hampshire Department of Correction's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we have noted on pages twenty through twenty-two instances of noncompliance with state statutes, while not material to the financial statements, we believe to be worthy of report mention.

This report is intended for the information of the management of the New Hampshire Department of Corrections and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 30, 1995

STATE COMPLIANCE

OBSERVATION NO. 9 - COLLECTION OF PENALTIES FOR DELINQUENT OHRV REGISTRATION FEES

OBSERVATION:

- Correctional Industries performs Off Highway Recreational Vehicle (OHRV) registration activities for the Fish and Game Department pursuant to a formal memorandum of agreement. As part of this agreement, Correctional Industries provides the accounting and control system over OHRV registration agents.

RSA 215-A:24-a, IV directs that if the accounting and payments required from an OHRV agent are delinquent, the agent shall be assessed a 10% or \$10 penalty, whichever is greater.

Correctional Industries does not regularly charge penalties for delinquent agent accounting and payments as directed by the above mentioned statute. While RSA 215-A:24-a, VII allows the executive director of the Fish and Game Department to waive the requirements for assessing and collecting penalties, there was no documentation available to indicate that Correctional Industries was directed to waive penalty fees for delinquent agent accounting and payments.

RECOMMENDATION:

- Correctional Industries should charge and collect penalty fees for delinquent agent accounting and payments as required by statute unless formally directed to do otherwise by the executive director of the Fish and Game Department.

AUDITEE RESPONSE:

- NHCI concurs and is currently accessing penalty fees on delinquent OHRV agents unless waived by the executive director of the Fish & Game Department.

OBSERVATION NO. 10 - TIMELY DEPOSIT OF RECEIPTS

OBSERVATION:

- RSA 6:11 provides direction for the deposit of state funds. RSA 6:11, IV(b) directs that, unless otherwise exempted, departments shall deposit all money at the State Treasury daily.

OBSERVATION NO. 10 - TIMELY DEPOSIT OF RECEIPTS (Continued)

OBSERVATION (Continued):

In our sample of revenue test items, 36 test items were paid for by checks or cash. (The remainder of the test items were paid for by state payment vouchers without checks being generated.) The payments for 15 (42%) of these 36 test items were not deposited with the Treasurer in a timely manner as required by RSA 6:11. The number of business days these deposits were late ranged from two to six and averaged 2.5 business days late.

RECOMMENDATION:

- Correctional Industries should deposit receipts daily in compliance with RSA 6:11.

AUDITEE RESPONSE:

- With the exception of the Retail Store, all checks are deposited on the day of receipt. Policy has been changed at the Retail Store to allow for daily deposits if they are in excess of \$100.

OBSERVATION NO. 11 - CORRECTIONAL INDUSTRIES ADVISORY BOARD

OBSERVATION:

- RSA 622:28-b, effective August 8, 1993, established a Correctional Industries Advisory Board. According to statute "the board shall meet at least annually to assist the commissioner of corrections in decisions relative to industry products, including marketing, selection, sales, manufacturing, purchasing, customer relations, product quality, pricing and other business matters."

No documentation was made available to us to demonstrate that the Board exists and that the Board has performed its responsibilities as outlined in statute.

RECOMMENDATIONS:

- The Commissioner should nominate members to the Board for approval by the governor.
- The Board should meet at least annually and assist the Commissioner as outlined in the statute.

OBSERVATION NO. 11 - CORRECTIONAL INDUSTRIES ADVISORY BOARD (Continued)

AUDITEE RESPONSE:

- NHCI currently informally reaches out to various industry groups, community leaders, department heads, private organizations and other individuals to solicit ideas and concepts that will further advance industries. This networking has had demonstrated success as NHCI continues to expand and be financially viable. It is NHCI's position that RSA 622:28-b be abolished and that these functions will be assumed by a committee appointed by the Commissioner under the provisions of RSA 21-G:11, I.

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Correctional Industries, including the Vocational Training Trust Fund, of the Department of Corrections of the State of New Hampshire, as of and for the nine months ended March 31, 1995, and have issued our qualified report thereon dated June 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Correctional Industries of the New Hampshire Department of Corrections for the nine months ended March 31, 1995 we noted certain issues related to the operation of the Department that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included on pages twenty-four through thirty.

This report is intended for the information of the management of the New Hampshire Department of Corrections and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 30, 1995

MANAGEMENT ISSUES

OBSERVATION NO. 12 - VENDOR DISCOUNTS

OBSERVATION:

- A number of vendors allow discounts for timely payment of invoices. During our testing of Correctional Industries and Vocational Training Program expenditures we determined whether available vendor discounts were taken.

In our sample of 48 expenditure items from the Correctional Industries Programs, Correctional Industries failed to take advantage of the discount on six of the ten invoices that offered discounts.

In our sample of 20 expenditure items from the Vocational Training Program, the Program failed to take advantage of discounts offered on two invoices.

RECOMMENDATION:

- Where possible, Correctional Industries and Vocational Training should take advantage of vendor discounts offered for prompt payments.

AUDITEE RESPONSES:

- NHCI has, and will continue to try and take advantage of any vendor discount for timely payment. At times, however, workload and the cumbersome State payment process makes this difficult. NHCI will not pay any bill even if a discount is at stake that we do not have adequate documentation for including receiving and inspection reports ensuring that all purchases have been received and in good condition.
- Vocation Training has and will continue to try and take advantage of any vendor discount for timely payment.

OBSERVATION NO. 13 - EMPLOYEES WORKING 44 HOUR WORK WEEKS

OBSERVATION:

- Two Correctional Industries shop managers, according to the Collective Bargaining agreement, receive a 10% salary adjustment and are paid for 44 hour work weeks at straight time.

Two other Correctional Industries shop managers have regular work schedules of 44 hour work weeks and are paid 40 hours of pay at straight time and four hours of pay at time and one half each week.

OBSERVATION NO. 13 - EMPLOYEES WORKING 44 HOUR WORK WEEKS (Continued)

OBSERVATION (Continued):

There is no indication in the job descriptions for shop managers that these positions require more than a 40 hour work week. Based on discussion with Industries personnel, when these job positions were originally established they were created with 44 hour work weeks. When all employees went to 40 hour weeks, these employees were "grandfathered" in at 44 hours per week. When we asked about these positions we were told that these positions do not require overtime work and that once these employees retire, these positions will revert to 40 hour work weeks.

We also inquired of the Department of Administrative Services, Division of Personnel, as to whether there are provisions in the State's personnel system for 44 hour work weeks and were told there are no positions in state service that require employees to work in excess of 40 hours per week except for some law enforcement positions. The shop managers at Correctional Industries are not considered law enforcement positions. It does not appear that there is support for regularly having these two shop managers work 44 hour work weeks.

RECOMMENDATION:

- Correctional Industries should, in conjunction with the Department of Administrative Services, Division of Personnel, determine whether the continued 44 hour work week schedule is appropriate for these two employees.

AUDITEE RESPONSE:

- Under the "Collective Bargaining Agreement" two NHCI Shop Managers have their work schedule defined as a 44 hour work week. Two other NHCI managers are on a 44 hour work week and, in concurrence with the Director of Administration and the Director of Personnel [DOC], no employee will be subjected to a pay reduction, however upon vacancy, these positions will revert to a 40 hour work week. The office of the State Negotiator is aware of this plan and has not directed us to do otherwise.

OBSERVATION NO. 14 - ACTUAL LABOR HOURS NOT REPORTED ON THE WOOD SHOP JOB TICKETS

OBSERVATION:

- The selling price for a wood shop product is set either by a price sheet, for standard products, or by a quote given by the shop supervisor, for special projects. The price formula is intended to recover the cost of labor, materials, and overhead plus a 25% mark up.

Actual labor hours worked on a project are not accumulated or recorded by the shop. When a job is complete, the labor hours on the job ticket are "plugged" so that the labor cost when added to the overhead and total materials and marked up by 25% will equal the standard or quoted price regardless of the skill or speed of the workers assigned to the project.

By not recording actual labor hours and cost by project, the wood shop does not accumulate potentially useful management information on the operation of the wood shop and its work force. Accumulating the actual labor hours worked on products and comparing actual hours to quoted hours could provide important information for future quote, product selection, labor assignment, and manufacturing design purposes.

RECOMMENDATION:

- The wood shop should accumulate actual labor hours and costs by project for management information purposes. These actual hours and costs should be periodically compared to the standard hours and costs used in price determination calculations to ensure that the standard hours remain appropriate and as a general review of the shop's operation.

AUDITEE RESPONSE:

- NHCI will continue using Standard Hours for the purpose of costing jobs, but concurs that accumulating actual hours would be beneficial for management purposes. The Wood Shop will make note on the Job Ticket the actual hours in memo form. At least annually, the Wood Shop will analyze the actual hours to determine any deficiencies.

OBSERVATION NO. 15 - DOCUMENTING THE POLICY FOR CHARGING SHIPPING FEES

OBSERVATION:

- During revenue testing we noted a shipping charge related to a sale from the sign shop that was not charged to the customer. When asked about the policy for charging shipping fees the shop supervisor indicated that if the order is over \$125 the shipping charge is paid by Correctional Industries otherwise shipping charges are paid by the

OBSERVATION NO. 15 - DOCUMENTING THE POLICY FOR CHARGING SHIPPING FEES
(Continued)

OBSERVATION (Continued):

customer. While we do not question the policy, we were not provided any documentation to indicate that the policy was an official policy sanctioned by Correctional Industries management.

RECOMMENDATION:

- Correctional Industries should document its policy for charging shipping fees.

AUDITEE RESPONSE:

- NHCI has directed each Shop Manager to submit in writing their policy on charging for shipping fees, which will be approved by the Administrator of TIE.

OBSERVATION NO. 16 - PROJECTS ACCEPTED FROM COMMERCIAL BUSINESSES

OBSERVATION:

- The NH Department of Corrections (DOC) Policy and Procedures Directive (PPD) 7.2 establishes guidelines for the use and operation of the Vocational Training Program. The primary function of the Program is to provide inmates with a course of study leading to a certificate of competency in a given skill area. Products and services sold by the Program are priced at 10% above materials costs. There is no charge for labor.

Section IV. A. 1. of the PPD states that "Projects will be accepted only from State agencies, units of city, county or local government, State employees, their families and approved "non-commercial" members of the community."

During the audit period the Vocational Training Building Trades Program built a number of cabanas for the New Hampshire International Speedway. It is not clear whether the New Hampshire International Speedway should be considered a non-commercial member of the community eligible to purchase products from the Vocational Training Program.

RECOMMENDATION:

- The DOC should review PPD 7.2 and clarify who are eligible consumers of the Vocational Training Program's products and services.

OBSERVATION NO. 16 - PROJECTS ACCEPTED FROM COMMERCIAL BUSINESSES
(Continued)

AUDITEE RESPONSE:

- The intent of PPD 7.2 was to prohibit the sale of Vocational Training product to commercial establishments for resale to the public. Since the sale of cabanas to the Speedway was a one time event and was for their own use and not for resale, this is keeping within the intent of PPD 7.2

OBSERVATION NO. 17 - INEFFICIENCIES IN THE ACCOUNTING PROCESS

OBSERVATION:

- Correctional Industries' business office uses a computer accounting software package called ACCPAC to record the financial activity of the Correctional Industries programs. While the package has many capabilities, Correctional Industries only uses the invoice and receipts journal functions on a day-to-day basis and the general journal on a monthly basis. The disbursements journal function of the ACCPAC system is not used.

Correctional Industries' disbursements are initially recorded on a manual ledger by shop, allocated to accounts in a second manual ledger, and again recorded and summarized on a computer spreadsheet. The summarized disbursements are posted to ACCPAC monthly as month-end journal entries. This manual and redundant posting of disbursements to paper ledgers and spreadsheets is not an efficient method of recording accounting transactions. The multiple posting promotes the likelihood of errors occurring in the posting and summarization of the disbursements.

While it is understood that there is relatively little financial cost associated with this labor-intensive method of posting disbursements as inmate labor is used in part, the method is inefficient and does not provide the flexibility needed for potentially informative management reporting capabilities.

RECOMMENDATION:

- Correctional Industries should review the disbursement functions within the ACCPAC software to determine whether it could properly account for Correctional Industries' disbursements. If so, it should be used. If not, Correctional Industries should consider upgrading its accounting software to a package that could properly account for disbursements.

AUDITEE RESPONSE:

- NHCI concurs and in fact at the time of the audit was implementing a program that would accomplish that. This objective was consummated before the audit was finished and is operational today.

OBSERVATION NO. 18 - VOCATIONAL TRAINING TRUST FUND CHECKING ACCOUNT

OBSERVATION:

- The financial activity of the Vocational Training Programs is accounted for in a trust fund checking account that is not controlled by the State Treasury and is outside the state accounting system (NHIFS). None of the financial activity related to sales of product and services and the purchase of parts and supplies is subject to the controls and reporting process available to accounts held by the State Treasury and reported in NHIFS. All revenue generated from sales is deposited into the checking account and all purchases are made by check drawn against the account. At March 31, 1995 the balance in the checking account was \$27,644. During the nine months ended March 31, 1995 approximately \$129,000 was deposited into and \$136,000 was paid out of the account.

The Vocational Training Program shops generally purchase parts and supplies from vendors on credit terms. These vendors bill the Vocational Training Programs monthly and are paid by a check drawn on the Vocational Training bank account. Occasionally a shop may need parts and supplies from a vendor with whom the Program has not set up an account. In these instances, a check is used to make immediate payment upon the purchase of the parts and supplies.

By maintaining a separate program checking account outside the state accounting and control systems, the Vocational Training Program takes on additional risk that errors or irregularities may occur in the account and not be detected in a timely manner. It is unclear that the flexibility the account currently provides in making an occasional immediate purchase outweighs this additional risk.

RECOMMENDATION:

- The Vocational Training Trust Fund Account should be maintained within the state accounting and control systems. The account should be maintained in the State Treasury and receipts and payments should be subject to the controls and procedures required of other state accounting transactions. If appropriate, the account could be set up as a revolving fund similar to the Correctional Industries Revolving Fund Account. Either field purchase orders or a smaller petty-cash type account could be used for those instances where immediate purchases need to be made from vendors with whom the Programs have not established credit terms for purchases.

AUDITEE RESPONSE:

- The nature of the Vocational Training Program (VT), as stated many times previously, does not lend itself to the state's purchasing process. Customers bringing their equipment and vehicles to VT expect a few hours turnaround. Instructors can not determine before hand the

OBSERVATION NO. 18 - VOCATIONAL TRAINING TRUST FUND CHECKING ACCOUNT
(Continued)

AUDITEE RESPONSE (Continued):

vendors that may be needed or the material that may be required. Instructors work with a time constraint to provide service and flexibility is essential.

This Account has been approved by the Governor and Council and is not dissimilar to the process which other Vocational Training Programs operate all over the State in Technical Colleges and High Schools.

INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Correctional Industries, including the Vocational Training Trust Fund, of the Department of Corrections of the State of New Hampshire, as of and for the nine months ended March 31, 1995. These financial statements are the responsibility of the management of the New Hampshire Department of Corrections. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in NOTE 4, the New Hampshire Department of Corrections does not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

As more fully discussed in NOTE 5, the New Hampshire Department of Corrections did not record accounts receivable in the General Fund in accordance with generally accepted accounting principles, and thus understated revenue in the General Fund by \$75,000.

As more fully discussed in NOTE 1, the financial statements referred to in paragraph one are not intended to present the financial position of the New Hampshire Department of Corrections.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had our audit not been limited in scope as discussed in the third paragraph and the matters discussed in the fourth and fifth paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, certain financial activity of the New Hampshire Department of Corrections as of and for the nine months ended March 31, 1995 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying schedules presented on pages forty-four through forty-nine are presented for the purpose of additional analysis and are not a required part of the financial statements of the Correctional Industries, including the Vocational Training Trust Fund, of the New Hampshire Department of Corrections. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 1995 on our consideration of the New Hampshire Department of Corrections' Correctional Industries' internal control structure and a report dated June 30, 1995 on its compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 30, 1995

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

	<u>BUDGET</u>	<u>ACTUAL</u>	FAVORABLE/ (UNFAVORABLE) <u>VARIANCE</u>
<u>RESTRICTED REVENUE</u>			
SALES (Notes 3 and 5)	\$ <u>196,926</u>	\$ <u>1,278,461</u>	\$ <u>1,081,535</u>
TOTAL RESTRICTED REVENUE	\$<u>196,926</u>	\$<u>1,278,461</u>	\$<u>1,081,535</u>
<u>EXPENDITURES</u>			
SALARIES AND BENEFITS	\$638,849	\$ 490,829	\$ 148,020
REVOLVING ACCOUNT (Note 3)			
CONSUMABLE INVENTORY	275,433	828,355	(552,922)
SALARIES AND BENEFITS	-0-	213,228	(213,228)
INMATE LABOR	-0-	137,364	(137,364)
REPAIRS	7,254	60,485	(53,231)
EQUIPMENT	3,337	20,028	(16,691)
MISCELLANEOUS	<u>1,760</u>	<u>20,610</u>	<u>(18,850)</u>
TOTAL REVOLVING ACCOUNT EXPENDITURES	<u>287,784</u>	<u>1,280,070</u>	<u>(992,286)</u>
TOTAL EXPENDITURES	\$<u>926,633</u>	\$<u>1,770,899</u>	\$<u>(844,266)</u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**BALANCE SHEET
VOCATIONAL TRAINING TRUST FUND
AS OF MARCH 31, 1995**

ASSETS

CASH AND CASH DEPOSITS (Note 6)	\$27,644
ACCOUNTS RECEIVABLE	8,822
INVENTORY	<u>38,861</u>
TOTAL ASSETS	<u>\$75,327</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:

ACCOUNTS PAYABLE	\$19,406
CUSTOMER DEPOSITS	2,200
CUSTOMER OVER/ (UNDER) PAYMENTS	<u>(374)</u>
TOTAL LIABILITIES	<u>\$21,232</u>
 TOTAL FUND BALANCE	 <u>\$54,095</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$75,327</u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
VOCATIONAL TRAINING TRUST FUND
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

REVENUES

SALES OF GOODS OR SERVICES	\$124,899
OTHER	<u>517</u>
TOTAL REVENUES	<u>\$125,416</u>

EXPENDITURES

COST OF GOODS SOLD	\$112,580
EQUIPMENT AND SUPPLIES	<u>16,375</u>
TOTAL EXPENDITURES	<u>\$128,955</u>

<u>OTHER FINANCING SOURCES (USES)</u>	<u>\$ -0-</u>
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REVENUES AND OTHER SOURCES OVER/ (UNDER) EXPENDITURES	<u>\$ (3,539)</u>
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FUND BALANCE - JUNE 30, 1994 (Unaudited)	<u>\$ 57,634</u>
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<u>FUND BALANCE - MARCH 31, 1995</u>	<u>\$ 54,095</u>
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Department of Corrections (DOC) is an organization of the primary government of the State of New Hampshire established under New Hampshire Revised Statutes Annotated (RSA) 21-H. The financial activity of the Correctional Industries, including the Vocational Training Trust Fund, of the Department of Corrections is accounted for in the General and Expendable Trust Funds of the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). General Fund assets, liabilities and fund balances are reported for the State as a whole in the CAFR. The DOC, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities and fund balances as reported in the CAFR that are attributable to the Department of Corrections Correctional Industries cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Correctional Industries of the Department of Corrections in the General Fund and the change in this fund balance is not reported on the accompanying financial statements.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statements

The financial statements of the Correctional Industries have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Accounting

The State of New Hampshire and the Department of Corrections use funds and account groups to report on financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

GOVERNMENTAL FUND TYPE

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

FIDUCIARY FUND TYPE

Trust Funds

Transactions related to assets held by the Department of Corrections in a trustee capacity are accounted for in the fiduciary fund type. Assets received by the Department of Corrections as a trustee are accounted for as a trust fund.

Expendable Trust Funds

Expendable trust funds are used to account for fiduciary relationships in which both the trust principal and earnings thereon may be expended for the purposes of the trust. The Vocational Training Trust Fund is an expendable trust fund of the Department of Corrections.

ACCOUNT GROUPS

General Fixed Assets (Unaudited)

General fixed assets acquired by the DOC for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of March 31, 1995, the DOC had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions related to the General and Expendable Trust Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period.

Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

D. BUDGETARY DATA

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government; part III consists of draft appropriation bills for the appropriations made in the proposed budget. The operation of the DOC is included in the General Fund budget.

The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedule of Budgetary Components-General Fund on page forty-four, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward and transfers.

A Statement of Revenues and Expenditures-Budget and Actual-General Fund is presented as a Department of Corrections Correctional Industries financial statement.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the twelve month budgeted amount and a partial year's actual revenue and expenditures.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revolving account revenues and expenditures are recorded in the same accounting class in the New Hampshire Integrated Financial System. In most instances operating budgets are not prepared for these accounts; rather, expenditures are made against revenues collected and balances brought forward. The unfavorable variance amounts in these revolving account expenditure lines do not indicate that the Department of Corrections Correctional Industries had over expended its authorized amounts in this account.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. The unliquidated encumbrance balance at March 31, 1995 for Correctional Industries was \$323,242.

E. FIXED ASSETS - GENERAL (Unaudited)

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated. Presently, the DOC does not have complete financial records to support the amounts included in the General Fixed Assets Account Group.

F. INTERFUND AND INTRAFUND TRANSACTIONS

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel and maintenance. These fees are recorded as revenue by the servicing department and as expenditures by the user department.

The Department of Corrections Correctional Industries sells products and services to other state departments and agencies as well as to other nonstate customers. The proceeds from these sales are recorded as revenues to the Correctional Industries.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 -- VOCATIONAL TRAINING TRUST FUND

The Vocational Training Trust Fund is an expendable trust fund of the Department of Corrections. The fund is used to purchase parts and supplies utilized in the Department's vocational education and training shops. The source of funding for the Vocational Training Fund is payment from customers of the vocational shops who pay cost plus a markup on cost for materials used in work performed by the shops.

NOTE 3 -- CORRECTIONAL INDUSTRIES REVOLVING ACCOUNT

The Correctional Industries Revolving Account established by RSA 622:28-a is used to account for operating expenses and revenues related to Correctional Industries. According to the statute, "Except for permanent personnel, all operating expenses, materials, supplies, overtime and purchase and repair of equipment determined to be necessary for the growing or manufacture of products for resale shall be a proper charge against this account...." Revenues from the sale of goods and services produced from the industries program are recorded in the account and are intended to be sufficient to defray the expenditures charged to the account.

NOTE 4 -- GENERAL FIXED ASSETS ACCOUNT GROUP (Unaudited)

The following is a schedule of changes in Correctional Industries' equipment balances, as reported by the DOC, in the General Fixed Assets Account Group for the nine months ended March 31, 1995. Equipment purchases are funded through budgeted appropriations and unbudgeted expenditures in the revolving account.

	<u>Balance</u> <u>7/1/94</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>3/31/95</u>
Equipment	<u>\$1,163,392</u>	<u>\$17,470</u>	<u>\$27,176</u>	<u>\$1,153,686</u>

Changes in the equipment balances are reported to the Department of Administrative Services, Bureau of Purchase and Property, at the end of each fiscal year for inclusion in the State's Comprehensive Annual Financial Report. Presently, the DOC does not have complete financial records to support the amounts reported in the General Fixed Assets Account Group.

NOTE 5 -- ACCOUNTS RECEIVABLE

The DOC is required by state accounting policies to report accounts receivable at year end, June 30. The DOC is not required by state accounting policy to report accounts receivable at interim dates. As a result, at March 31, 1995, the DOC did not report \$289,473 of Correctional

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5 -- ACCOUNTS RECEIVABLE (Continued)

Industries accounts receivable in accordance with generally accepted accounting principles. The effect of the DOC not reporting accounts receivable at interim dates was a \$75,000 understatement of Correctional Industries' revenue on the Statement of Revenues and Expenditures-Budget and Actual-General Fund for the nine months ended March 31, 1995.

The DOC did record accounts receivable in the Vocational Training Account at March 31, 1995.

NOTE 6 -- CASH AND CASH DEPOSITS

The DOC maintains the Vocational Training Trust Fund in an interest bearing checking account. At March 31, 1995 the bank and carrying balance in the account was \$27,644. The account was covered by federal depository insurance.

NOTE 7 -- EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The DOC as an organization of State government participates in the New Hampshire Retirement System (the Plan). The Plan is a defined benefit plan and covers substantially all full-time employees of the DOC. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of firefighters and police officers.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is $1/60$ (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65 the yearly pension amount is recalculated at $1/66$ (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 1995, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the DOC's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

The DOC's payments for normal contribution costs for the nine months ended March 31, 1995 amounted to 2.65% of the covered payroll for its Group I employees and 5.07% for its Group II employees. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The DOC as an organization of State government offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)

Postemployment Health Care Benefits

In addition to the benefits described above, the DOC as an organization of State government provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by state statute.

During the nine months ended March 31, 1995, the State paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the DOC employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Certain amounts related to the cost for health insurance premiums for the DOC's Group II retirees are off-set by a medical subtrust of the retirement plan. Accordingly, the cost of health insurance benefits for the retired DOC employees and spouses is not included in the DOC's financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**SCHEDULE OF BUDGETARY COMPONENTS - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD/ TRANSFERS</u>	<u>BUDGET</u>
<u>RESTRICTED REVENUE</u>				
SALES	\$ -0-	\$ -0-	\$196,926	\$196,926
TOTAL RESTRICTED REVENUE	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$196,926</u>	<u>\$196,926</u>
<u>EXPENDITURES</u>				
SALARIES AND BENEFITS	\$488,334	\$ -0-	\$150,515	\$638,849
REVOLVING ACCOUNT				
CONSUMABLE INVENTORY	-0-	-0-	275,433	275,433
SALARIES AND BENEFITS	-0-	-0-	-0-	-0-
INMATE LABOR	-0-	-0-	-0-	-0-
REPAIRS	-0-	-0-	7,254	7,254
EQUIPMENT	-0-	-0-	3,337	3,337
MISCELLANEOUS	<u>-0-</u>	<u>-0-</u>	<u>1,760</u>	<u>1,760</u>
TOTAL REVOLVING ACCOUNT EXPENDITURES	<u>-0-</u>	<u>-0-</u>	<u>287,784</u>	<u>287,784</u>
TOTAL EXPENDITURES	<u>\$488,334</u>	<u>\$ -0-</u>	<u>\$438,299</u>	<u>\$926,633</u>

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**SCHEDULE OF INCOME AND EXPENSES BY SHOP
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

	<u>PLATE</u>	<u>PRINT</u>	<u>WOOD</u>	<u>DATA PROCESS</u>	<u>SIGN</u>
SALES	\$71,598	\$410,462	\$191,114	\$95,463	\$265,423
 <u>COST OF GOODS SOLD</u>					
BEGINNING INVENTORY	\$ -0-	\$ 96,584	\$ 39,082	\$ -0-	\$126,645
ADD: PURCHASES/ COST OF MANUFACTURING	-0-	276,566	145,211	-0-	185,105
LESS: ENDING INVENTORY	<u>-0-</u>	<u>136,059</u>	<u>46,370</u>	<u>-0-</u>	<u>158,140</u>
COST OF GOODS SOLD	<u>-0-</u>	<u>237,091</u>	<u>137,923</u>	<u>-0-</u>	<u>153,610</u>
GROSS PROFIT/(LOSS) ON SALES	<u>\$71,598</u>	<u>\$173,371</u>	<u>\$ 53,191</u>	<u>\$95,463</u>	<u>\$111,813</u>
 <u>OPERATING EXPENSES</u>					
CIVILIAN WAGES	\$55,228	\$ -0-	\$ -0-	\$ -0-	\$ -0-
SELLING AND ADMINISTRATION	4,723	27,077	12,607	6,297	17,509
SUPPLIES	1,176	-0-	-0-	10,855	-0-
EQUIPMENT REPAIR	4,911	-0-	-0-	1,314	-0-
INMATE WAGES	17,539	-0-	-0-	16,994	-0-
STOCK-IN-TRADE	-0-	-0-	-0-	-0-	-0-
DEPRECIATION	163	8,390	54	120	165
OTHER	<u>(6,747)</u>	<u>-0-</u>	<u>-0-</u>	<u>10,546</u>	<u>-0-</u>
TOTAL EXPENSES	<u>\$76,993</u>	<u>\$ 35,467</u>	<u>\$ 12,661</u>	<u>\$46,126</u>	<u>\$ 17,674</u>
 PROFIT/(LOSS) FROM OPERATIONS	 <u>\$ (5,395)</u>	 <u>\$137,904</u>	 <u>\$ 40,530</u>	 <u>\$49,337</u>	 <u>\$ 94,139</u>

<u>FARM</u>	<u>OHRV</u>	<u>FURNI- TURE</u>	<u>ELEC- TRONICS</u>	<u>TAILOR</u>	<u>OFFICE</u>	<u>TOTAL</u>
\$112,106	\$53,737	\$340,064	\$13,955	\$ 34,955	\$ 1,320	\$1,590,197
\$ -0-	\$ -0-	\$ 26,027	\$ -0-	\$ -0-	\$ -0-	\$ 288,338
-0-	-0-	298,891	-0-	-0-	-0-	905,773
<u>-0-</u>	<u>-0-</u>	<u>39,891</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>380,460</u>
<u>-0-</u>	<u>-0-</u>	<u>285,027</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>813,651</u>
<u>\$112,106</u>	<u>\$53,737</u>	<u>\$ 55,037</u>	<u>\$13,955</u>	<u>\$ 34,955</u>	<u>\$ 1,320</u>	<u>\$ 776,546</u>
\$ 27,652	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 82,880
7,395	3,545	22,433	921	2,306	87	104,900
22,123	195	-0-	-0-	60	-0-	34,409
17,737	-0-	-0-	-0-	-0-	-0-	23,962
9,919	4,500	-0-	5,000	5,861	-0-	59,813
-0-	22,371	-0-	-0-	42,631	-0-	65,002
4,799	-0-	-0-	-0-	38	433	14,162
<u>7,054</u>	<u>2,443</u>	<u>-0-</u>	<u>198</u>	<u>246</u>	<u>802</u>	<u>14,542</u>
<u>\$ 96,679</u>	<u>\$33,054</u>	<u>\$ 22,433</u>	<u>\$ 6,119</u>	<u>\$ 51,142</u>	<u>\$ 1,322</u>	<u>\$ 399,670</u>
<u>\$ 15,427</u>	<u>\$20,683</u>	<u>\$ 32,604</u>	<u>\$ 7,836</u>	<u>\$(16,187)</u>	<u>\$ (2)</u>	<u>\$ 376,876</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**SCHEDULE OF RESTRICTED REVENUE BY SHOP
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

SALES BY SHOP

PLATE	\$ 71,598
PRINT	410,462
WOOD	191,114
DATA PROCESSING	95,463
SIGN	265,423
FARM	112,106
OHRV PROCESSING	53,737
FURNITURE	340,064
ELECTRONICS	13,955
TAILOR	34,955
OFFICE	<u>1,320</u>

TOTAL SHOP SALES \$1,590,197

LESS: INTERNAL SALES	\$ 14,546
ACCOUNTS RECEIVABLE 3/31/95	289,473
OTHER	<u>7,717</u>

**RESTRICTED REVENUE PER
STATEMENT OF REVENUES AND
EXPENDITURES-BUDGET AND ACTUAL-
GENERAL FUND** \$1,278,461

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES**

**SCHEDULE OF EXPENSES BY SHOP
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

EXPENSES BY SHOP

PLATE	\$ 76,993
PRINT	272,558
WOOD	150,584
DATA PROCESSING	46,126
SIGN	171,284
FARM	96,679
OHRV PROCESSING	33,054
FURNITURE	307,460
ELECTRONICS	6,119
TAILOR	51,142
OFFICE	<u>1,322</u>

TOTAL SHOP EXPENSES **\$1,213,321**

PLUS: CHANGE IN ENDING INVENTORY	\$ 92,122
LESS: DEPRECIATION EXPENSE	14,162
OTHER	<u>11,211</u>

**EXPENDITURES PER STATEMENT
OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL-GENERAL FUND**

\$1,280,070

PLUS: DEPRECIATION EXPENSE	\$ 14,162
OTHER	11,211

LESS: TRANSFER OF MATERIALS, LABOR AND OVERHEAD TO COST OF GOODS SOLD	<u>905,773</u>
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**OPERATING EXPENSES PER
SCHEDULE OF PROFIT AND
LOSS BY SHOP**

\$ 399,670

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APPENDIX - STATUS OF PRIOR AUDIT REPORT OBSERVATIONS

The following is a listing of the observations contained in the report on the examination of the Department of Corrections Prison Industries for the eighteen months ended December 31, 1986. Along with the listing is the June 30, 1995 status of those observations. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, N.H. 03301.

<u>INTERNAL CONTROL</u>	<u>STATUS</u>
1. Negative Balance Forward	● ● ●
2. Control Over Inventory (See Current Year Observation No. 4)	● ● ○
3. Revenue - Incomplete Documentation (See Current Year Observation No. 3)	● ● ○
4. Revenue - Segregation of Duties	● ● ●
5. Authorization for Credits to Accounts Receivable	● ● ●
6. Job Ticket Control	● ● ●
7. Application of Overhead Rates	● ● ●
8. Control Over Equipment (See Current Year Observation No. 2)	● ○ ○
9. Organizational Structure and Staff Training	● ● ●
10. Misstatement of the Cost of Goods Manufactured	● ● ●
11. Control Over Accounts Receivable (See Current Year Observation No. 1)	● ○ ○
 <u>STATE COMPLIANCE</u>	
12. RSA Reporting Requirements	● ● ●
13. Equipment Reporting Requirements	● ● ●

STATUS KEY

Fully resolved	● ● ●
Substantially resolved	● ● ○
Partially resolved	● ○ ○
Unresolved	○ ○ ○

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