

DEPARTMENT OF JUVENILE JUSTICE

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2009 AND JUNE 30, 2010**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Juvenile Justice, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Internal Controls over Contract Administration

During fiscal years 2009 and 2010, total payments to Anthem exceeded \$3.3 million, and the Department of Juvenile Justice (Juvenile Justice) needs to improve controls over the administration of the Anthem health care contract. Anthem Blue Cross Blue Shield provides third party claims administration for health care services provided to youth restricted to confinement at facilities statewide. Juvenile Justice does not have a process to ensure that the reimbursement amounts requested by Anthem are for actual services provided to juveniles confined in state facilities.

Currently, Juvenile Justice does not have a contract administrator assigned to oversee the Anthem contract. While the previous contract administrator retired in December 2010, we could not find documentation to determine the extent of his review of the charges and other contract terms for fiscal year 2009 or 2010.

The contract administrator has responsibility for the day to day coordination of delivery of services, providing assurance that the services are delivered in accordance with contract terms, certifying the receipt of goods, completing periodic evaluations of contractor performance, providing assurance that the contract amount is not exceeded without proper authorization, and providing assurance that contract terms are not modified without action through the Contract Officer. Further without a reconciliation process, neither the contract administrator nor management of Juvenile Justice can determine the adequacy of charges for services rendered.

The complex nature of medical billing and third party reimbursement makes this process risky; therefore, Juvenile Justice should create and execute a process to ensure that the amounts submitted for reimbursement are for actual services received by juveniles in their custody. Juvenile Justice should also immediately assign a contract administrator to ensure adequate contract oversight.

Improve Oracle Database Security

Juvenile Justice needs to improve security controls and processes over the Juvenile Tracking System (JTS) Oracle Database. The JTS tracks the lives of juveniles that have become part of the Juvenile Justice system. The tracking system contains confidential and mission critical personal, medical, and court data. Specifically, Juvenile Justice needs to improve the following controls and procedures.

- Change and Patch Management Procedures
- Backup and Restoration Procedures
- Account Reviews
- Database Administrator Audit Trail Monitoring

We have communicated the details of these weaknesses to management in a separate document marked Freedom of Information Act Exempts under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of the security system.

We recommend that Juvenile Justice develop the appropriate policies, procedures, and processes to improve the controls and safeguards over its Oracle databases that contain sensitive information. Additionally, Juvenile Justice should create minimum accepted configurations that include the controls mentioned above and provide necessary training to implement and operationalize these changes.

AGENCY HIGHLIGHTS

Background Information

The Department of Juvenile Justice (Juvenile Justice) provides custody and care for juveniles in the correctional system. Juvenile Justice has a central office in Richmond and regional offices. The central office provides administrative support, while the regional offices oversee court service units. Juvenile Justice also assists in funding the following facilities and programs.

- Six Juvenile Correctional Centers provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs. On October 9, 2009, Natural Bridge Juvenile Correction Center closed, leaving five remaining Juvenile Correctional Centers.
- A Reception and Diagnostic Center which serves as the central intake facility for all juveniles committed to Juvenile Justice. The facility provides psychological, educational, social, and medical evaluations and classification to determine appropriate treatment needs, security requirements, institutional placement, and length of stay.
- Thirty-five Court Service Units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates 32 units and localities operate three.
- Three halfway houses provide transitional living arrangements and skill development to juveniles returning to their communities. On June 10, 2010, one facility closed, leaving two remaining facilities.
- Twenty-four secure detention homes provide temporary care of juveniles requiring secure custody pending court disposition or placement. Twelve of these facilities are locally operated, and 12 are run by a regional commission, which are political entities comprised of three or more localities.

Financial Information

Juvenile Justice's main funding source is General Fund appropriations. Over 97 percent of Juvenile Justice's total funding in both fiscal years 2009 and 2010 came from General Fund appropriations. Juvenile Justice also receives federal grants and collects some miscellaneous revenues. The following schedules provide information on the operating budget and expenses for fiscal years 2009 and 2010.

Fiscal Year 2009 Budget and Actual Expense Analysis by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Operation of Community Residential and Nonresidential Services	\$ 5,437,896	\$ 3,564,827	\$ 3,556,673
Supervision of Offenders and Re-entry Services	57,944,290	54,763,394	54,591,957
Financial Assistance to Local Governments for Juvenile Justice Services	52,697,635	52,750,938	52,505,524
Operation of Secure Correctional Facilities	92,436,862	88,995,147	86,298,024
Administrative and Support Services	<u>16,322,075</u>	<u>16,509,693</u>	<u>16,160,919</u>
Total	<u>\$224,838,758</u>	<u>\$216,583,999</u>	<u>\$213,113,097</u>

Fiscal Year 2010 Budget and Actual Expense Analysis by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Operation of Community Residential and Nonresidential Services	\$ 5,437,896	\$ 2,260,274	\$ 2,259,036
Supervision of Offenders and Re-entry Services	57,944,290	49,767,819	49,554,779
Financial Assistance to Local Governments for Juvenile Justice Services	52,697,635	48,728,299	48,393,720
Operation of Secure Correctional Facilities	91,217,739	80,581,147	78,736,287
Administrative and Support Services	16,322,075	15,737,660	14,446,366
Executive Management	<u>(11,082,181)</u>	<u>-</u>	<u>-</u>
Total	<u>\$212,537,454</u>	<u>\$197,075,199</u>	<u>\$193,390,188</u>

Source: Commonwealth Accounting and Reporting System

Information on each of Juvenile Justice's program areas is below.

Operation of Community Residential and Nonresidential Services

The Operation of Community Residential and Nonresidential Services program represents efforts to prevent and reduce the number of juvenile repeat offenders by providing community based residential and nonresidential services. Juvenile Justice contracts with private providers and government agencies to provide residential substance abuse services, mental health services and alternatives to juvenile correctional facilities. Non-residential services include educational support services, employment services, treatment services, mentoring, surveillance, and relapse prevention services. Juvenile Justice provides services based on individual case needs as determined by the supervising probation or parole officer in the court service units.

As a result of general fund budget reductions in fiscal years 2009 and 2010, this program's budget decreased by approximately \$5 million. These reductions resulted in Juvenile Justice reducing funding for services and programs provided to juveniles on probation and parole.

Supervision of Offenders and Re-entry Services

The Supervision of Offenders and Re-entry Services program provides funding to the state-operated court services units. Court service units provide a variety of services including intake services for juvenile offenses and domestic relations and child welfare matters. In addition, court service units provide probation services to juveniles placed on probation by the local courts and parole services for juveniles released from state commitment. The court service units also conducts investigations, provides counseling and file petitions for citizens regarding civil matters as well as file petitions for child welfare agencies.

In fiscal years 2009 and 2010 the budget significantly decreased by approximately \$11 million. The impact of the budget reductions resulted in Juvenile Justice eliminating 76.5 positions, including eliminating vacant court service unit positions and reducing probation and parole officers and support positions in court service units across the Commonwealth.

Financial Assistance to Local Governments for Juvenile Justice Services

The Financial Assistance to Local Governments program provides financial support for the 24 juvenile detention facilities that local governments and commissions operate. Juvenile Justice provides partial funding for construction and operations and serves as the regulatory agency for these facilities. This program also funds the three locally operated court service units that provide intake services and probation and parole services.

Lastly, Juvenile Justice provides funding to local governments through the Virginia Juvenile Community Crime Control Act to design and implement services to meet the needs of juveniles in their localities. With a plan approved by the Board of Juvenile Justice, localities may purchase or develop and operate a variety of programs for juveniles. Since January 1996, Juvenile Justice has allocated funding to each local governing body through a formula based on factors including the number and types of arrests in a locality and the average daily cost for serving a child. However, the formula is no longer part of the funding calculation and funding has remained relatively consistent for each governing body for the past several years. In fiscal year 2010, Juvenile Justice passed budget reductions of nearly \$4 million to the localities that operated the above mentioned programs.

Operation of Secure Correctional Facilities

The Operation of Secure Correctional Facilities program includes several service areas including the management of secure juvenile correctional centers, food and dietary services, medical and clinical services, facility maintenance and service, offender classification and time computation services, juvenile supervision and management services, and juvenile rehabilitative and treatment services. During fiscal years 2009 and a portion of fiscal year 2010, Juvenile Justice operated a reception and diagnostic center and six juvenile correctional centers.

During fiscal years 2009 and 2010, budget reductions of over \$14 million had a significant impact on the program. On October 9, 2009, Juvenile Justice closed Natural Bridge Juvenile Correction Center, which eliminated programs at the facility, resulted in 68 layoffs and required juvenile relocations to other correctional centers. In addition to closing a correctional facility, Juvenile Justice also eliminated a juvenile transitional program, compressed populations at three facilities, and eliminated vacant positions including

behavioral services positions and a health services coordinator. These actions resulted in eliminating 32 positions. Juvenile Justice also utilized non-general funds in the place of general funds.

Administrative and Support Services

Administrative and Support Services represents the various administrative functions necessary to operate the agency. These include Human Resources, Accounting and Budgeting, Procurement, Information Technology, Planning and Evaluation, and Emergency Preparedness.

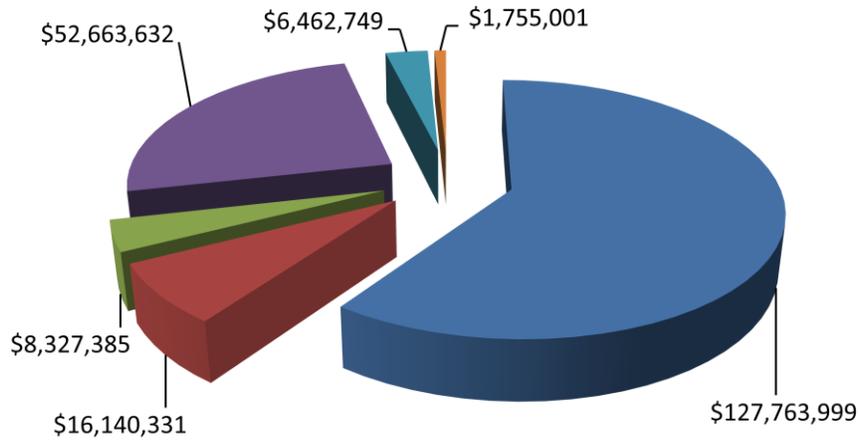
While budget reductions in fiscal year 2009 did impact the program, the program's final budget increased slightly as a result of the agency receiving funding for information technology services. In fiscal year 2010, Juvenile Justice's final budget decreased by over \$500,000. In order to implement these reductions, Juvenile Justice eliminated approximately 23 positions and reduced training, education and travel costs.

Operating Expenses

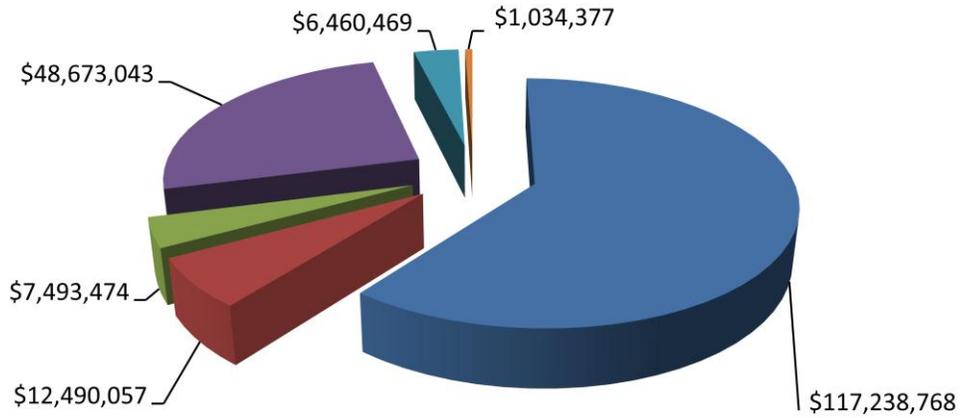
Juvenile Justices' largest expense item is personal services, which includes payroll and fringe benefit costs for the agency's employees. In fiscal year 2009, personal service expenses were 59.9 percent of the agency's expenses, with a slight increase to 60.6 percent in fiscal year 2010.

The second largest expense for Juvenile Justice is transfer payments, which represents funds distributed to localities to operate detention facilities, court service units and other locally administered programs. Juvenile Justice's third largest expense item is contractual services, which includes contracts and payments for medical and prescription services. The following charts show total operating expense by type for fiscal years 2009 and 2010.

Fiscal Year 2009 Operating Expenses by Type



Fiscal Year 2010 Operating Expenses by Type



- Personal Services
 - Supplies and Materials
 - Continuous Charges
- Contractual Services
 - Transfer Payments
 - Property, Improvements, and Equipment



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
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Walter J. Kucharski, Auditor

March 14, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Juvenile Justice** (Juvenile Justice) for the fiscal years ended June 30, 2009 and June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of Juvenile Justice's internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Juvenile Justice's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Appropriations
Contractual Services
Payroll Expenditures
Financial Assistance and Payments to the Localities

Capital Outlay
System Access
Information Security

We performed audit tests to determine whether the Juvenile Justice's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Juvenile Justice's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Juvenile Justice properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Juvenile Justice records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Agency has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on March 25, 2011. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

STT/cj



Helivi L. Holland
DIRECTOR

COMMONWEALTH of VIRGINIA

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March 29, 2011

Mr. Walter J. Kucharski, Auditor
Auditor of Public Accounts
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Dear Mr. Kucharski

The Department of Juvenile Justice (DJJ) appreciates the opportunity to respond to the results of the Fiscal Years 2009-2010 audit conducted the last three months here at DJJ. I will address each Management Point separately and our responses will be similar to our earlier responses when we were made aware of the possible Mgt. Pt.

MP # 1
Improve Internal Controls over Contract Administration

This Management Point specifically addresses the Department's Anthem contract. Items mentioned include: "DJJ does not have a process to ensure that the reimbursement amounts requested by Anthem are for actual services provided to juveniles confined in the state facilities" and "Currently DJJ does not have a contract administrator to oversee the Anthem contract".

The following is our action plan to address the above two issues. First, Dr. Michael Campbell was appointed the Anthem contract administrator effective March 1, 2011. As the contract administrator, Dr. Campbell has implemented a system where the head nurse at each juvenile correctional center will: 1. Receive the Anthem bill each month from the DJJ Head Nurse; 2. Will utilize their records to verify the youth assigned to their facility received the actual services indicated on the Anthem billing; 3. Will notify the Head Nurse of confirmation/dispute of the charges. The Head Nurse will notify Dr. Campbell of the results and Dr. Campbell will certify the monthly bill for actual payment based on the results obtained from the process outlined above.

The Department is of the opinion the above process will provide sufficient internal controls over the Anthem contract. Additionally, the Department is in the process of hiring a Health Services Administrator who will assume the duties of the contract administrator upon hiring.

MP # 2

Improve Oracle Database Security

This Management Point states "Specifically, Juvenile Justice needs to improve the following controls and procedures". The four specific areas are listed below with DJJ's action plan:

1. Change and Patch Management- DJJ will work in conjunction with the Database Administrator to ensure DJJ is current on all necessary patches and has appropriate patch management documentation or change management documentation;
2. Backup and Restoration Procedures- DJJ will continue to work with the VITA/NG partnership on this issue with the goal of achieving a formalized agreement and solution. Additionally, DJJ will pursue internal solutions for backup and restoration;
3. Account Reviews- DJJ will establish a report that will detail users who have not accessed their accounts within 30 days. Contact will be made to either the user or their supervisor to determine if access is still necessary. The review will occur weekly by the system owner or designee. Adherence to present procedures regarding termination of accounts will be more strictly enforced;
4. Database Administrator Audit Trail Monitoring- Audit trail entries for sys_dba privileges will be automatically sent to a server where the DBA does not have permission to edit or delete. These logs will be reviewed monthly by the system owner or designee.

Again we appreciate the opportunity to provide a response to the deficiencies identified in the Audit and the opportunity to correct them. We have plans in place to monitor both areas requiring improvement.

Sincerely,



W. Stephen Pullen
Deputy Director
Administration & Finance

AGENCY OFFICIALS

DEPARTMENT OF JUVENILE JUSTICE

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