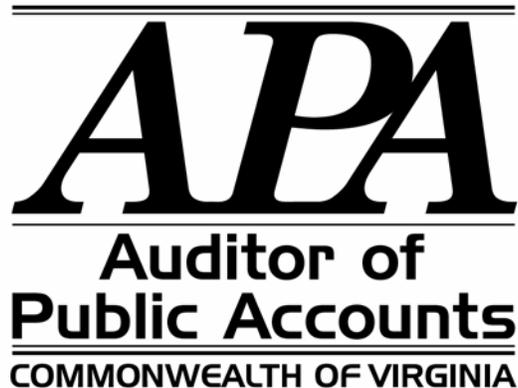


**DEPARTMENT OF CORRECTIONS
AND VIRGINIA PAROLE BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2003, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- certain internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with selected provisions of applicable laws and regulations; and
- inadequate implementation of corrective action with respect to the prior audit findings “Follow Established Inventory Procedures” and “Ensure Proper Recording and Tracking of Leases.”

This report does not include Virginia Correctional Enterprises. We will issue a separate report with financial information, findings, and recommendations related to Virginia Correctional Enterprises.

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AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Corrections (Corrections) operates the state’s correctional facilities for adult offenders and directs the work of all probation and parole officers. Corrections has determined that its mission is to enhance public safety by controlling and supervising sentenced offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards. Corrections also coordinates correctional activities that relate to parole with the Parole Board. Corrections processes the Parole Board’s financial transactions and prepares its financial reports.

Corrections administers operations through a central administrative agency, two central divisions, and three regional offices. The two central divisions are Institutions and Community Corrections. The Institutions division oversees the operations of 27 major correctional centers, four work centers, two reception and classification centers, one treatment center, and 13 field units. Due to budget reductions, Corrections closed the Southampton Treatment Center, Fairfax Field Unit, Nottoway Work Center, Tidewater Woman’s Detention Center, and the Northern Regional Office in the last quarter of fiscal year 2002. The Staunton Correctional Center closed in December 2002. During fiscal year 2003, Corrections had an average daily population of 31,645 inmates, including 1,146 out-of-state inmates.

The Community Corrections division had approximately 819 inmates in alternative programs, including three detention centers and six diversion centers. In addition, division staff supervised over 45,000 probationers and parolees, which includes approximately 4,420 participants of special programs such as Pilot Project Sex Offenders and Home Electronic Monitoring. Community Corrections operates with 42 Probation and Parole Districts and 582 Probation Officers. In addition, the Community Corrections’ Local Facilities Unit is the department’s liaison with local and regional jails and lockups.

Financial Information

During fiscal year 2003, Corrections employed over 11,700 individuals, most of who work in the Institutions division. The following schedule compares selected operating statistics for the past six fiscal years. The operating budget increased in the years 1998 – 2001 because Corrections opened several new facilities during this time. The decreases in budget since 2001 are the result of budget reductions discussed in more detail later in this section.

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003
Average Daily Inmate Population	25,199	29,105	31,406	31,670	32,374	31,645
Average Annual Cost Per Inmate	\$17,351	\$18,666	\$19,428	\$20,979	\$19,913	\$20,142
Total Operating Budget (in millions)	\$573	\$672	\$729	\$793	\$777	\$768

Source: Management Information Summary Report and Population Summary prepared by Department

Corrections’ primary funding comes from general fund appropriations that pay over 90 percent of the operating expenses. Corrections also receives monies for housing out-of-state inmates and from federal grants. In fiscal year 2003, Corrections incurred over \$27 million in additional budget reductions over the reductions taken in the prior year. Corrections met these reductions through turnover and vacancy savings, reductions in food cost and equipment purchases, and facility closings. In addition, the Appropriations Act required that Corrections make several transfers during 2001 and 2002 to the general fund that included

\$5.8 million in out-of-state inmate funds and a year-end transfer of \$4 million. Corrections made no transfer to the general fund in fiscal year 2003 and used the funds to offset the budget reductions.

The following table details the original budget, final budget, and actual operating expenses in fiscal year 2003 by division and program. Appropriations under the Institutions Division's secure confinement program decreased by over \$30 million. Corrections absorbed this decrease through reductions in retirement contributions beginning in December 2001, facility closings, adjustments for correctional officer turnover and vacancy savings, as well as other across-the-board reductions. Appropriation under the Central Office's administration and support services program increased by over \$9 million due to a transfer of \$2.7 million in out-of-state inmate revenues to help this division pay for an information technology project. In addition, Central Office received additional appropriations for increases in rent and utilities, and transfer of several positions from other programs.

<u>Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Expenses</u>
<u>Division of Institutions:</u>			
Administrative and Support Services	\$ 264,127,758	\$ 250,431,892	\$ 250,155,573
Secure Confinement	403,981,362	369,820,397	364,864,275
Classification Services	7,215,246	6,526,749	6,526,517
Agribusiness	6,054,015	8,102,001	8,096,995
Executive Management Savings	<u>(12,947,743)</u>	<u>Note 1</u>	<u>Note 1</u>
Total	<u>\$ 668,430,638</u>	<u>\$ 634,881,039</u>	<u>\$ 629,643,360</u>
<u>Division of Community Corrections:</u>			
Administrative and Support Services	\$ 9,181,344	\$ 7,146,777	\$ 7,146,685
Community Based Custody	7,468,816	4,794,907	4,794,906
Probation and Reentry Services	56,873,405	58,734,828	57,865,011
Secure Confinement	14,768,015	12,808,423	12,808,402
Financial Assistance for Confinement in Local Facilities	28,426	28,426	23,613
Confinement and Custody Research Planning and Coordination	<u>296,303</u>	<u>173,088</u>	<u>173,088</u>
Total	<u>\$ 88,616,309</u>	<u>\$ 83,686,449</u>	<u>\$ 82,811,705</u>
<u>Central Administration:</u>			
Administrative and Support Services	32,585,337	44,931,258	44,469,434
Criminal Justice Training, Education, and Standards	3,616,390	4,135,068	4,135,067
Confinement and Custody Research Planning and Coordination	1,092,384	652,977	652,963
Vending Facilities, Snack Bars, and Cafeterias	<u>482,829</u>	<u>575,955</u>	<u>575,954</u>
Total	<u>\$ 37,776,940</u>	<u>\$ 50,295,259</u>	<u>\$ 49,833,418</u>

Information Systems

Corrections provides information technology services through 27 different applications and systems operating on a DEC VAX Cluster, an IBM Mainframe, NT servers, and personal computers. Many of Corrections' critical systems are using outdated older technologies. Corrections first began working on development of an enterprise-wide system to replace and integrate its various systems in 2001. Corrections suspended this project, named ICIS, for several reasons including the prohibitive cost of the system, the vendor delaying the development efforts, and uncertainty with changes in administrations and information technology. At the time of development suspension, Corrections had already made some investments into system development efforts, which included personnel costs and the purchase of 5,250 user licenses at a cost of over \$4 million, which Corrections does not expect to recover.

Although Corrections has suspended the ICIS system development effort, there is still a need to replace its older critical systems, specifically its offender based management system. Corrections is planning to purchase a new offender based management system (OMS) within the next few years and anticipates the total system cost of approximately \$17 million. As part of this effort, Corrections issued a Request for Proposal in February 2004 for the time computation portion of an OMS. The anticipated total cost of this module should be less than \$1 million. Corrections expects to receive RFP responses in March and finalize the contract and payment by June 2004. Once finalized, Corrections expects actual implementation time for the module to be only 4-6 months. If this module meets Corrections' needs, they plan to purchase the entire OMS package.

Virginia Information Technology Agency (VITA) will assume operations of Corrections' Center for Information Technology (CIT) in the fall of 2004. Under this change in operations, both personnel and technology assets will transfer to VITA. In preparation for the transfer, Corrections is completing a comprehensive hardware and software inventory. After transfer, Corrections will pay VITA for maintaining the information technology resources, providing support, and developing any applications needed to support Corrections.

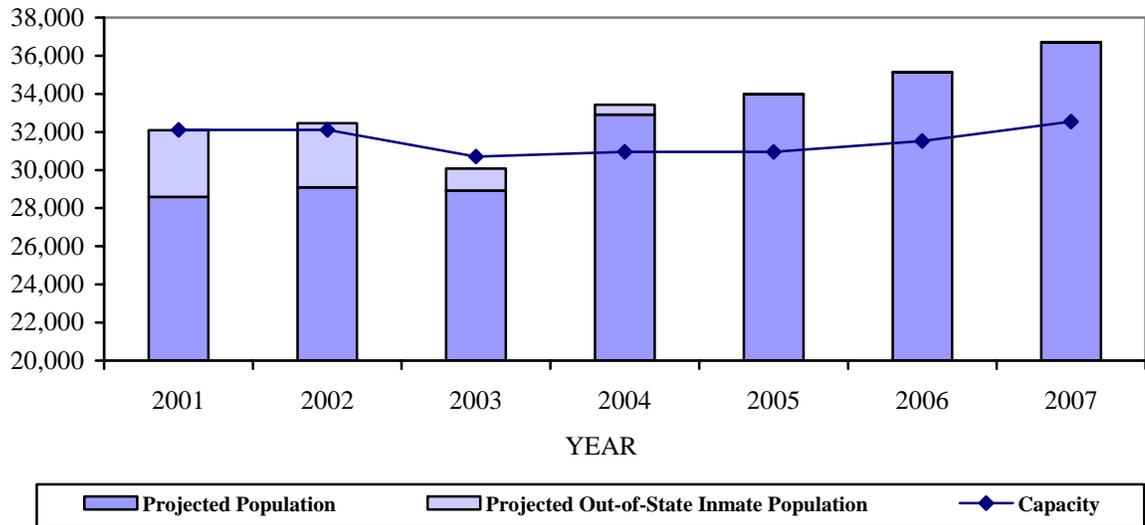
Inmate Population and Capacity

Prison expansions of the late 1990's resulted in excess prison capacity in recent years. To use the excess capacity, Corrections contracted with other states to house their inmates. The out-of-state inmate population peaked in 2001 and has been declining since then as the population of Virginia inmates has been increasing. Corrections facilities are now operating at or over capacity due to the growing population of Virginia inmates. As shown on the following graph, Corrections expects a capacity shortfall of approximately 2,400 in 2004 increasing to 7,500 in 2009. These shortfalls include housing a declining number of out-of-state inmates. The projected population amount represents state responsible inmates only, not inmates who are responsibility of the local jails. The projected population also assumes no non-compliance inmates held in local jails. Non-compliance inmates are inmates that remain in the local jail more than 60 days after becoming state responsible, unless they meet specified requirements. As of June 30, 2003, there were 2,242 non-compliance inmates housed in local jails.

In the graph below, the capacity decrease in 2003 occurred when Corrections closed the Staunton Correctional Center in response to budget reductions. In an effort to relieve the capacity shortfall, Corrections has all facilities double bunking inmates to various extents. Several facilities have already reached their maximum capacity for double bunking, and 841 temporary beds are being used statewide. Corrections has a long-term goal to discontinue the use of temporary beds, but must use the beds in order to relieve the critical inmate backlog in local jails. Lastly, water and wastewater restrictions limit capacity and approximately 21 of 46 facilities are at the maximum capacity levels.

The Governor and the General Assembly are still considering plans to address the potential shortage. The Governor's introduced budget for 2004-2006 includes funding for one new medium security prison. This new prison has been included in the following graph with the increase in capacity in 2007. The following graph compares inmate population, including out-of-state inmates, to capacity. Information presented in the graph for fiscal years 2001-2003 represents actual population. Information for fiscal years 2004 and beyond is based on population projections issued by the Secretary of Public Safety in October 2003.

Prison Population and Capacity Analysis



Source: Department of Corrections State Responsible Offender Population Forecast
 Out-of-state Inmate Overview as of September 3, 2003
 Master Plan

As discussed above, Corrections began contracting to house out-of-state inmates in the late 1990s to fill the excess capacity in the prisons. Corrections is slowly phasing out these contracts as they need this space for Virginia inmates. The Federal Bureau of Prisons contract ended in fiscal year 2003; Vermont and New Mexico's contract will end in fiscal year 2004; and the Connecticut contract will end in fiscal year 2005. Corrections expects to keep approximately 20 out-of-state inmates from the Virgin Islands and Hawaii, but does not plan to enter into any new contracts.

Corrections charges a daily rate between \$43 and \$75 based on the contract requirements and the security level of the inmates. With the decrease in the number of contracted prisoners, Corrections is using general funds to cover the expenses previously supported with the out-of-state inmate revenues. Corrections had relied solely on the out-of-state inmate revenues to cover all of the expenses for Sussex II and St. Brides, as well as the additional expenses directly associated with housing the inmates. Also, Corrections had returned some of these funds to the General Fund of the Commonwealth as shown below. With the declining revenues, Corrections made a much smaller transfer in 2003. The following table shows out-of-state inmate population and financial information through 2004.

	1999 (Actual)	2000 (Actual)	2001 (Actual)	2002 (Actual)	2003 (Actual)	2004 (Estimated)
Average Daily Out-of-State-Inmate Population	2,142	3,477	3,357	3,145	1,147	520
Total Out-of-State Inmate Revenue	\$35,832,482	\$78,819,882	\$75,956,756	\$76,857,568	\$29,951,174	\$19,994,699
Total Amount Returned to the General Fund	\$9,539,721	\$21,383,807	\$6,900,000	\$5,868,000	\$220,396	None

Source: Management Information Summary Report prepared by the Department

Prison Privatization

Corrections has one privately-operated medium security prison in Lawrenceville which opened in 1998. At that time, Corrections contracted with a private corporation, Corrections Corporation of American (CCA), for the construction and operation of a medium-security prison with 1,536 general population beds, and 42 segregation beds. The Industrial Development Authority of Brunswick County used bond financing to pay for the design and construction of the facility. Corrections leases the facility from the Authority, and has the option to purchase the facility for \$1 at the end of the bond term.

The original contract with CCA was in effect through March 2003. This contract covered operations of the facility with a minimum capacity of 1,425 inmates at a per diem rate of \$35.20 for the first 1,425 inmates and \$13.97 for each inmate above 1,425 during the first year. The contract adjusted the per diem rates on March 23 of each of the four subsequent years with rates ranging from \$31.08 to \$33.96 for the first 1,425 inmates and \$14.39 to \$15.72 for each inmate above 1,425. The private prison's per diem rate covered all operating costs of the facility with the exception of the transportation costs of transferring the inmates in and out of the facility, depreciation expense, and debt service costs. The per diem costs also include administrative costs from CCA headquarters as well as the facility.

Chapter 899 of the Acts of Assembly directed Corrections to issue a Request for Proposal for the procurement of a private prison management firm to operate Lawrenceville. Corrections evaluated all bids based on cost, qualifications, and other relevant considerations. Corrections compared the projected cost of operation by the private contractor with the projected cost of operation by the Corrections using its own employees and prepared a report of its findings. Corrections determined that it was cost beneficial to continue with privatization.

Corrections awarded the new contract to operate the Lawrenceville facility to The Geo Group (formerly the Wackenhut Correctional Corporation). They took over the operations of the prison in March 2003. The contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The facility houses only males inmates and does not have a major medical facility. The contract establishes a per diem rate of \$35.67 for the first 1,425 inmates and \$6.03 for each inmate above 1,425 during the first two years of the contract. The contract adjusts the per diem rates on March 23 of each of the subsequent years based on the Consumer Products Index for wage earners.

The Lawrenceville prison earned American Corrections Association (ACA) accreditation during November 1999. ACA is a national private non-profit organization that establishes standards for correctional institutions. Most of Corrections' newer facilities have become ACA accredited, although some of the older prisons cannot because they cannot meet all of the accreditation standards. Corrections also has its own internal standards for its facilities. The GEO Group must maintain ACA accreditation and meet Corrections' internal standards.

Comparison of Major Correctional Center Costs

Aside from the private prison discussed above, Corrections operates all other state correctional facilities. In fiscal year 2003, Corrections had an average daily population of 24,922 inmates in its 27 major correctional centers. These facilities operate at various security levels ranging from minimum (level 2) to super-maximum (level 6). Corrections has only one level 6 facility (Red Onion) because it has changed the security level at Wallens Ridge to a level 5 facility during the year. The Department of Correctional Education, a separate agency, administers educational programs to the inmates and accounts for these costs.

Corrections receives an appropriation in its Institutions division for all of its facilities. The central administrative agency then allocates this appropriation out to the individual institutions by establishing an operating budget for each correctional center with the Warden having primary responsibility for administering the plan. Most correctional center operating budgets do not include all medical treatment services or wastewater treatment expenses incurred at the facility. Central Office maintain a department-wide budget for a significant portion of medical costs because costs at individual institutions may vary significantly from year to year, creating an unnecessary the need to administratively shift funds between institutions.

Each institution has a medical budget that includes staffing, equipment, materials, and supplies for the local infirmary. Medical staffing at facilities is a combination of state employees and contracted employees. Correction makes the staffing decisions based on the size of the institution, the medical needs of the inmates, and the availability of qualified medical personnel in the area.

The centrally budgeted medical expenses provide medical treatment to inmates not available at the institution. Corrections acquires local services using a contract with Anthem, which allows Corrections to access the contractor's provider network. Under this self insurance plan, Corrections has Anthem recognize inmates as if they had individual insurance. Anthem in addition to providing access to its network, also acts as a plan administrator, auditing charges, reviewing care and providing its network discount for an administrative fee.

The tables on the following pages show fiscal year 2003 expenses by institution. In addition, they also reflect a daily and annual cost calculation per inmate based on the average daily population. The expenses shown in the tables do not include maintenance reserve, regional office administration, central office administration, or debt service costs. The tables show only the expenses of the major correctional centers and do not include any costs or inmates related to field units, reception classification centers, or work centers. Expenses in the tables come from the Commonwealth Accounting and Reporting System. The tables report expenses in the following categories for each major correctional center:

- Administration-salaries for wardens, and other administrative expenses of the facility
- Agribusiness-efforts to produce and process food, meats, and related products
- Education – educational program for inmates provided by Department of Correctional Education
- Food and dietary services
- Laundry
- Medical and clinical services
- Physical plant-costs to operate and maintain the physical plant facilities
- Power plant-costs to provide, operate and maintain power plants
- Recreation
- Rehabilitation services
- Security services
- Wastewater treatment

As shown in the tables, the average daily expense per inmate ranges from \$41 to \$194. On average, the daily cost per inmate is \$59 across all facilities which results in an annual average cost per inmate of \$21,400. Staunton Correctional Center has the highest per diem cost of \$193.89 for all major institutions. Staunton closed during fiscal year 2003 and began moving inmates out several months before it closed. Marion Correctional Treatment Center has the next highest per diem cost of \$157.35 per inmate. Most of Marion's inmates are mentally ill, resulting in high mental health costs and a low inmate-to-staff ratio. Powhatan's per diem rate is \$87.51 per inmate. Powhatan has a 58 bed infirmary, including a 12-bed psychiatric unit, which makes it the largest medical facility in Corrections. The psychiatric unit is the second largest after Marion.

	Red Onion Correctional Center <u>Security Level 6</u>	Wallens Ridge Correctional Center <u>Security Level 5</u>	Sussex I Correctional Center <u>Security Level 5</u>	Sussex II Correctional Center <u>Security Level 5</u>
Average Daily Population:	922	887	1,211	1,208
Average Employment Level:	400	397	359	344
Expenses:				
Administration	\$ 1,641,978	\$ 1,386,401	\$ 1,980,817	\$ 1,929,520
Agribusiness	-	-	-	-
Education	399,737	442,728	332,858	659,907
Food and Dietary Services	1,041,162	985,797	1,441,190	1,266,401
Laundry	96,648	111,323	169,127	225,367
Medical and Clinical Services	2,133,352	2,024,064	3,743,714	2,939,592
Physical Plant	2,044,270	1,823,046	4,553,819	1,489,927
Power Plant	37,735	-	657,864	-
Recreation	-	32,557	21,029	35,746
Rehabilitation and Treatment Services	745,604	724,426	651,987	500,856
Security	12,960,509	13,165,316	12,893,105	12,728,923
Wastewater Treatment	-	-	-	-
Total Expenses	<u>\$ 21,100,995</u>	<u>\$ 20,695,658</u>	<u>\$ 26,445,510</u>	<u>\$ 21,776,239</u>
Average Annual Expenses per inmate	<u>\$ 22,886</u>	<u>\$ 23,332</u>	<u>\$ 21,838</u>	<u>\$ 18,027</u>
Average Daily Expenses per inmate	<u>\$ 62.70</u>	<u>\$ 63.92</u>	<u>\$ 59.83</u>	<u>\$ 49.39</u>

	Keen Mountain Correctional Center	Nottoway Correctional Center	Augusta Correctional Center	Brunswick Correctional Center
	<u>Security Level 4</u>	<u>Security Level 4</u>	<u>Security Level 3 and 4</u>	<u>Security Level 3</u>
Average Daily Population:	896	1,198	1,089	761
Average Employment Level:	284	426	432	337
Expenses:				
Administration	\$ 1,263,266	\$ 1,548,681	\$ 1,540,667	\$ 1,784,512
Agribusiness	-	280,543	351,747	327,496
Education	439,990	679,190	531,037	745,227
Food and Dietary Services	1,096,539	1,239,070	1,248,070	956,808
Laundry	73,128	180,548	50,814	17,857
Medical and Clinical Services	1,308,067	2,154,875	3,074,338	2,382,942
Physical Plant	1,811,460	2,077,182	1,807,032	1,425,645
Power Plant	430,030	377,134	411,871	353,257
Recreation	37,834	50,687	46,430	29,054
Rehabilitation and Treatment Services	577,227	676,005	800,074	737,699
Security	9,384,582	14,783,496	14,103,780	11,321,967
Wastewater Treatment	-	278,408	-	-
Total Expenses	<u>\$ 16,422,123</u>	<u>\$ 24,325,819</u>	<u>\$ 23,965,860</u>	<u>\$ 20,082,464</u>
Average Annual Expenses per inmate	<u>\$ 18,328</u>	<u>\$ 20,305</u>	<u>\$ 22,007</u>	<u>\$ 26,390</u>
Average Daily Expenses per inmate	<u>\$ 50.21</u>	<u>\$ 55.63</u>	<u>\$ 60.29</u>	<u>\$ 72.30</u>

	Buckingham Correctional Center	Fluvanna Correctional Center	Greensville Correctional Center	Powhatan Correctional Center
	<u>Security Level 3</u>	<u>Security Level 3</u>	<u>Security Level 3</u>	<u>Security Level 3</u>
Average Daily Population:	964	1,098	2,895	861
Average Employment Level:	353	345	772	357
Expenses:				
Administration	\$ 1,450,011	\$ 1,870,296	\$ 3,913,856	\$ 2,011,491
Agribusiness	182,287	-	579,186	-
Education	527,223	1,137,221	1,551,136	562,737
Food and Dietary Services	1,219,967	1,106,043	3,257,458	1,153,834
Laundry	54,188	129,057	381,115	40,101
Medical and Clinical Services	2,249,190	7,019,803	11,306,500	7,868,605
Physical Plant	1,638,611	1,507,532	4,957,468	2,561,997
Power Plant	400,905	-	721,233	696,890
Recreation	45,217	8,182	121,426	5,144
Rehabilitation and Treatment Services	800,404	1,024,531	1,668,164	722,273
Security	12,128,748	12,029,572	29,871,647	11,878,436
Wastewater Treatment	<u>183,191</u>	<u>348,480</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 20,879,942</u>	<u>\$ 26,180,717</u>	<u>\$ 58,329,189</u>	<u>\$ 27,501,508</u>
Average Annual Expenses per inmate	<u>\$ 21,660</u>	<u>\$ 23,844</u>	<u>\$ 20,148</u>	<u>\$ 31,941</u>
Average Daily Expenses per inmate	<u>\$ 59.34</u>	<u>\$ 65.33</u>	<u>\$ 55.20</u>	<u>\$ 87.51</u>

	Southampton Correctional Center	Bland Correctional Center	Coffeewood Correctional Center	Deep Meadow Correctional Center
	<u>Security Level 3</u>	<u>Security Level 2</u>	<u>Security Level 2</u>	<u>Security Level 2</u>
Average Daily Population:	647	631	1,192	967
Average Employment Level:	249	287	254	313
Expenses:				
Administration	\$ 1,499,665	\$ 1,230,262	\$ 1,562,787	\$ 1,393,639
Agribusiness	1,702,130	877,875	248,591	-
Education	986,237	538,368	609,277	532,448
Food and Dietary Services	773,610	881,597	1,244,893	1,077,527
Laundry	16,979	83,603	61,573	88,270
Medical and Clinical Services	1,291,306	1,427,812	3,334,473	2,404,690
Physical Plant	2,217,504	1,190,490	1,504,524	1,633,385
Power Plant	702,934	428,320	-	-
Recreation	50,597	45,730	36,849	48,485
Rehabilitation and Treatment Services	431,866	554,823	884,544	296,164
Security	7,091,744	8,832,022	8,442,679	11,486,265
Wastewater Treatment	<u>266,986</u>	<u>337,821</u>	<u>317,213</u>	<u>-</u>
Total Expenses	<u>\$ 17,031,558</u>	<u>\$ 16,428,723</u>	<u>\$ 18,247,403</u>	<u>\$ 18,960,873</u>
Average Annual Expenses per inmate	<u>\$ 26,324</u>	<u>\$ 26,036</u>	<u>\$ 15,308</u>	<u>\$ 19,608</u>
Average Daily Expenses per inmate	<u>\$ 72.12</u>	<u>\$ 71.33</u>	<u>\$ 41.94</u>	<u>\$ 53.72</u>

	Deerfield Correctional Center	Dillwyn Correctional Center	Haynesville Correctional Center	Indian Creek Correctional Center
	<u>Security Level 2</u>	<u>Security Level 2</u>	<u>Security Level 2</u>	<u>Security Level 2</u>
Average Daily Population:	486	1,088	1,138	979
Average Employment Level:	184	259	270	272
Expenses:				
Administration	\$ 1,133,612	\$ 1,204,664	\$ 1,278,256	\$ 1,161,764
Agribusiness	120,695	-	-	-
Education	434,149	518,633	558,895	609,061
Food and Dietary Services	854,803	1,097,021	1,208,562	1,220,268
Laundry	55,149	69,595	50,514	71,613
Medical and Clinical Services	2,709,136	2,773,721	2,469,202	2,201,611
Physical Plant	995,369	1,165,774	1,428,632	976,496
Power Plant	-	-	-	-
Recreation	77,456	3,297	37,995	48,545
Rehabilitation and Treatment Services	339,165	769,760	667,468	1,925,641
Security	5,683,200	8,973,964	9,231,443	7,886,359
Wastewater Treatment	-	-	223,960	-
Total Expenses	<u>\$ 12,402,734</u>	<u>\$ 16,576,429</u>	<u>\$ 17,154,927</u>	<u>\$ 16,101,358</u>
Average Annual Expenses per inmate	<u>\$ 25,520</u>	<u>\$ 15,236</u>	<u>\$ 15,075</u>	<u>\$ 16,447</u>
Average Daily Expenses per inmate	<u>\$ 69.92</u>	<u>\$ 41.74</u>	<u>\$ 41.30</u>	<u>\$ 45.06</u>

	James River Correctional Center	Lunenburg Correctional Center	Mecklenburg Correctional Center	St. Brides Correctional Center
	<u>Security Level 2</u>	<u>Security Level 2</u>	<u>Security Level 2</u>	<u>Security Level 2</u>
Average Daily Population:	463	1,185	732	578
Average Employment Level:	194	284	304	178
Expenses:				
Administration	\$ 1,067,441	\$ 1,390,544	\$ 1,289,043	\$1,244,782
Agribusiness	2,100,682	-	-	-
Education	524,877	652,034	236,217	1,008,861
Food and Dietary Services	704,397	1,238,508	938,794	653,632
Laundry	47,544	147,654	70,747	58,655
Medical and Clinical Services	923,012	3,518,860	1,699,519	684,269
Physical Plant	1,017,681	2,270,188	1,824,486	769,861
Power Plant	347,767	-	549,526	318,354
Recreation	49,697	52,498	6,153	32,364
Rehabilitation and Treatment Services	221,201	615,491	610,450	568,855
Security	5,316,407	9,301,485	10,157,107	5,329,456
Wastewater Treatment	<u>823,019</u>	<u>-</u>	<u>-</u>	<u>327,698</u>
Total Expenses	<u>\$ 13,143,725</u>	<u>\$19,187,262</u>	<u>\$ 17,382,042</u>	<u>\$10,996,787</u>
Average Annual Expenses per inmate	<u>\$ 28,388</u>	<u>\$ 16,192</u>	<u>\$ 23,746</u>	<u>\$ 19,026</u>
Average Daily Expenses per inmate	<u>\$ 77.78</u>	<u>\$ 44.36</u>	<u>\$ 65.06</u>	<u>\$ 52.12</u>

	Staunton Correctional Center	Virginia Correctional Center for Women	Marion Correctional Center	All Major Correctional Centers
	<u>Security Level 2</u>	<u>Security Level 2</u>	<u>Security Level 2</u>	
Average Daily Population:	113	517	216	24,922
Average Employment Level:	105	197	221	8,377
Expenses:				
Administration	\$ 1,180,936	\$ 1,289,233	\$ 929,289	\$41,177,413
Agribusiness	-	-	-	6,771,232
Education	767,266	753,535	191,259	16,930,108
Food and Dietary Services	325,457	704,883	320,395	29,256,686
Laundry	21,307	114,592	38,721	2,525,789
Medical and Clinical Services	1,144,187	2,327,276	2,455,712	79,569,828
Physical Plant	699,834	993,236	552,059	46,937,508
Power Plant	333,573	554,413	-	7,321,806
Recreation	18,533	42,898	173,044	1,157,447
Rehabilitation and Treatment Services	352,671	849,131	1,056,954	19,773,434
Security	3,153,332	5,670,671	6,687,757	280,493,972
Wastewater Treatment	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,106,776</u>
Total Expenses	<u>\$ 7,997,096</u>	<u>\$ 13,299,868</u>	<u>\$ 12,405,190</u>	<u>\$535,021,999</u>
Average Annual Expenses per inmate	<u>\$ 70,771</u>	<u>\$ 25,725</u>	<u>\$ 57,431</u>	<u>\$ 21,468</u>
Average Daily Expenses per inmate	<u>\$ 193.89</u>	<u>\$ 70.48</u>	<u>\$ 157.35</u>	<u>\$ 58.82</u>

Note: All education expenses reported on pages 9-15 are incurred by the Department of Correctional Education.

Source: Commonwealth Accounting and Reporting System as of June 30, 2003 and the Management Information Summary Report as of June 30, 2003

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Follow Established Inventory Procedures

As reported previously, Corrections staff did not follow established procedures when performing their materials and supplies inventory and commissary inventory. At year end, this inventory was valued at over \$10 million. We observed year-end inventories at four facilities and found the following issues:

- One of four institutions had not developed institutional procedures specific to their operations in order to help eliminate confusion before, during, and after the inventory count.
- Staff at one of four institutions had access to the inventory records (bin cards) during the count and relied on them instead of physically counting the items. Corrections should ensure that staff physically count all items during inventory.
- One institution did not properly tag inventory to avoid duplicate counting.
- Two of four institutions did not properly count all items.

Corrections risks misstating inventory when staff do not properly follow inventory policies and procedures. Corrections should ensure that employees understand and follow the policies and procedures for materials and supplies inventory and commissary inventory.

Ensure Proper Recording and Tracking of Leases

As reported previously, Corrections needs to improve internal controls to ensure that staff properly record and track leases in accordance with Commonwealth Accounting Policies and Procedures. We found nine out of ten lease payments did not have adequate support documentation to ensure proper recording as capital lease payments rather than operating leases in the Commonwealth Accounting and Reporting System. Also, we found no documentation for one out of six capital leases on the Lease Accounting System (LAS).

Corrections should ensure that institution staff have adequate training and properly follow Corrections' procedures for leases and related payments.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

February 25, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Corrections** and **Virginia Parole Board** for the year ended June 30, 2003. Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate audit report we will issue. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of the audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenue	Inmate Trust Funds
Expenditures	Commissary Funds
Contract Management	Fixed Assets
Inventory	

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We

performed audit tests to determine whether the Department'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.

The Department'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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and Corrections' "Annual Management Information Summaries Report."

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations."

Corrections has not taken adequate corrective action with respect to the previously reported finding entitled "Follow Established Inventory Procedures" and "Ensure Proper Recording and Tracking of Leases." These findings are included in the section entitled "Internal Control and Compliance Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report with the exception of the aforementioned finding.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 16, 2004.

AUDITOR OF PUBLIC ACCOUNTS

LCR:whb
whb:47

DEPARTMENT OF CORRECTIONS
Richmond, Virginia

Gene Johnson, Director

John Jabe, Deputy Director

N.H. "Cookie" Scott, Deputy Director

Ted Link, Controller

BOARD OF CORRECTIONS

James H. Burrell

Jacqueline F. Fraser

Gregory M. Kallen

R. Bobby Mitchell

Donald L. Cahill

Clay B. Hester

Renee' Trent Maxey

W. Randy Wright

PAROLE BOARD

Herbert V. Coulton

Helen F. Fahey

David N. Harker

Michael M. Hawes

Carol Ann Sievers



COMMONWEALTH of VIRGINIA

Department of Corrections

GENE M. JOHNSON
DIRECTOR

P. O. BOX 26963
RICHMOND, VIRGINIA 23261
(804) 674-3000

April 21, 2004

Mr. Walter J. Kucharski, Auditor
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Re: Response to APA Audit Report on the Department of Corrections and Virginia
Parole Board for Fiscal Year Ended June 30, 2003

Dear Mr. Kucharski:

Enclosed is our response to the Auditor of Public Accounts (APA) report on the examination of the Department of Corrections and the Virginia Parole Board for the fiscal year ended June 30, 2003. We appreciate the opportunity to respond to the report findings prior to formal publication of the report.

We believe that our responses specifically address the issues raised by the APA, and trust that actions already taken and currently under way will serve to reduce costs and strengthen our control environment. Please let me know should you have any questions regarding this report.

Sincerely,

A handwritten signature in cursive script that reads "N. H. Scott".

N. H. Scott
Deputy Director - Administration

Enclosure

Cc: Mr. Gene M. Johnson,
Director

Mr. David A. Von Moll,
State Comptroller

APR 25 '04 11:38

**APA AUDIT FOR FISCAL YEAR 2003
INTERNAL CONTROL AND COMPLIANCE FINDINGS,
RECOMMENDATIONS AND DOC RESPONSES**

APA FINDING # 1 - FOLLOW ESTABLISHED INVENTORY PROCEDURES

As reported previously, Corrections staff did not follow established procedures when performing their materials and supplies inventory and commissary inventory. At year-end, this inventory was valued at over \$10 million. We observed year-end inventories at four facilities and found the following issues:

- One of four institutions had not developed institutional procedures specific to their operations in order to help eliminate confusion before, during, and after the inventory count.
- Staff at one of four institutions had access to the inventory records (bin cards) during the count and relied on them instead of physically counting the items. Corrections should ensure that staff physically counts all items during inventory.
- One institution did not properly tag inventory to avoid duplicate counting.
- Two of four institutions did not properly count all items.

Corrections risks misstating inventory when staff do not properly follow inventory policies and procedures. Corrections should ensure that employees understand and follow the policies and procedures for materials and supplies inventory and commissary inventory.

DOC RESPONSE: It is the opinion of Management that the above findings resulted from lapses in compliance with inventory procedures on the part of the responsible parties. As an added action, Management will require each responsible party to certify in writing that the annual Materials and Supplies inventory has been conducted in accordance with applicable procedures.

ACTION PLAN: Fiscal Officers will certify in writing that the 2004 annual Materials and Supplies inventory has been conducted in accordance with DOC Procedure 6-26.

RESPONSIBLE POSITION: Agency Fiscal Officers

DUE DATE: June 2004

APA FINDING # 2 - ENSURE PROPER RECORDING AND TRACKING OF LEASES

As reported previously, Corrections needs to improve internal controls to ensure that staff properly record and track leases in accordance with Commonwealth Accounting Policies and Procedures. We found nine out of ten lease payments did not have adequate support documentation to ensure proper recording as capital lease payments rather than operating leases in the Commonwealth Accounting and Reporting System. Also, we found no documentation for one out of six capital leases on the Lease Accounting System (LAS).

Corrections should ensure that institution staff have adequate training and properly follow Corrections' procedures for leases and related payments.

DOC RESPONSE: Management, in an attempt to improve compliance with LAS regulations, has nearly completed a comprehensive training package which details the many requirements involved in processing a lease. The electronic self-teaching training package will reside on the Department's intranet and will be available to users of the LAS system for fiscal year 2005. The programmed learning aspect of the training is designed to overcome limited training resources and the loss of well over 100 fiscal and clerical positions within the Department during fiscal year 2003.

ACTION PLAN: Make available to LAS users an electronic self-teaching training package covering the basic requirements of recording leases in the state's central system.

RESPONSIBLE POSITION: Departmental FAACS/LAS Coordinator

DUE DATE: July 2004