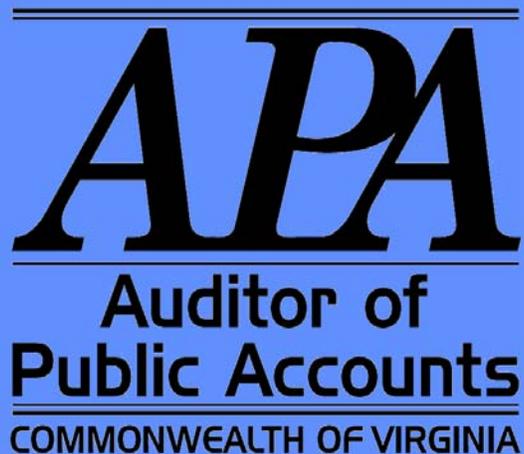


**DEPARTMENT OF CORRECTIONS
VIRGINIA PAROLE BOARD
VIRGINIA CORRECTIONAL ENTERPRISES**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Department of Corrections, the Virginia Parole Board and the Virginia Correctional Enterprises for the year ended June 30, 2008, 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;
- an instance of noncompliance with applicable laws and regulations required to be reported; and
- inadequate implementation of corrective action with respect to the following prior audit findings:
 - Improve Controls and Processes Surrounding Capital Assets and Construction in Progress;
 - Enforce Inventory Procedures;
 - Develop Internal Controls for Leave Liability and Time Tracking System; and
 - Properly Complete Employment Eligibility Verification Forms.

This report includes the Virginia Correctional Enterprises (VCE) which represents a change from the prior year's audit report where we issued VCE as a separate report. The report includes a section for the Department of Corrections which includes the Virginia Parole Board and a section for the Virginia Correctional Enterprises.

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DEPARTMENT OF CORRECTIONS

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Controls and Processes Surrounding Capital Assets and Construction in Progress

There has been no substantial improvement in Corrections' ability to properly record capital assets, and our auditors and the Department of Accounts continue to find significant errors in the information. The number of historical errors resulted in the Department of Accounts having to assign staff to assist Corrections personnel in doing capital asset record keeping. For 31 projects, the Department of Accounts found a total of \$8.6 million in understatements and \$9.1 million in overstatements of individual projects.

We began reporting these capital asset recordkeeping problems for fiscal year 2006 audit and this will be the third audit with the same general findings. Corrections has developed new policies and procedures, but continues to delegate correction of the problems to the same staff. We believe that Corrections needs to evaluate the staff assigned these problems and determine if they have the talents to correct the issues.

We understand that Corrections is making significant changes due to upcoming budget reductions in the accounting and finance area. However, we understand that Accounts also questions the assigned staff's ability to address the issue. Until Corrections assigns someone with the talents to address the following problem, we believe that the assigned staff do not possess the talent and resources to correct this matter.

The key problems with Corrections' process for tracking and reporting of construction in progress is the number of functional units involved in the process, the lack of effective communication between those units, and human error. Architectural and Engineering Services (A/E Services) receives all invoices for capital projects, maintains a list of these invoices by project, and provides Financial Services with a total by project quarterly.

Financial Services records construction in progress in FAACS. When a project is complete, A/E Services prepares a project recap sheet that details the amounts that need to move from construction in progress to specific asset classifications and provides this to Financial Services. Financial Services does not record these reclassifications, but instead sends the information to the individual facilities to record. In addition, facilities purchase project related equipment, request reimbursement from A/E Services, and record the asset in FAACS. A/E Services records the project expense in its project listing, resulting in double counting of the item as an asset and construction in progress in FAACS. The communication process between A/E Services, Financial Services, and the individual facilities is not effective, resulting in untimely and inaccurately recording of construction in progress and assets.

Enforce Inventory Procedures

Corrections should continue to enforce their existing procedures for taking physical inventory and pricing items in the inventory system. For one of the two facilities audited, we found 10 of 47 (or 21.5 percent) inventory items sampled to have count discrepancies when comparing the auditor's physical count of items to the warehouse employee's physical count. Corrections' Procedure 6-26 provides detailed instructions for warehouse employees to follow that will ensure accurate physical inventory counts; however, the high percentage of discrepancies indicates that the employees did not follow these instructions.

We recommend that Corrections regularly train warehouse employees in the proper way to conduct an inventory and hold the training as close as practicable to the taking of the inventory. Corrections should also review their current inventory suggested practices and system to determine if these processes are

adequate. Corrections should consider using their Internal Audit Department to assist in this review and perform a follow-up in those facilities with the most risk.

Develop Internal Controls for Leave Liability and Time Tracking System

Corrections time and leave system (DOCXL) used at their facilities continues to have inadequate internal controls resulting in unreliable data. Best practices such as audit trails, controls to prevent changes to formulas and computations, and the capture of all transactional activity do not exist in DOCXL.

Corrections would be an ideal candidate to implement an enterprise time and effort system; however, the probability of and timeframe for implementing this enterprise solution is uncertain at this time. As an interim solution we recommend that Corrections consider purchasing or developing a more robust time and effort system that provides adequate internal controls. Using Excel to manage the time and effort for an organization with more than 11,500 employees and numerous facilities is not adequate. Excel does not provide adequate security, an audit trail of transactions, or control changes to ensure the accuracy of how the system performs the calculations. Until Corrections replaces DOCXL, the accuracy of time and leave data at Corrections is questionable and identifying that someone inaccurately reported or modified recorded time or leave is also questionable.

Properly Complete Employment Eligibility Verification Forms

Our prior audit report identified that Corrections did not properly complete Employment Eligibility Verification (I-9) forms in accordance with guidance issued by the United States Citizenship and Immigration Services of the United States Department of Homeland Security in its Handbook for Employers. This guidance requires:

- The employee to complete, sign, and date Section 1 of the I-9 form on the first day of employment.
- The employer or designated representative to complete, sign, and date Section 2 of the I-9 form within three days of employment.

We previously recommended that Corrections maintain its own documented policies and procedures that specify the day-to-day operating procedures for I-9 completion, including who is responsible for carrying out these policies. Although Corrections did not write any policies and procedures, in June 2008 they trained field human resource personnel on those areas of I-9 processing that needed improvement. Corrections also began performing field audits of I-9 forms.

During this audit we reviewed thirty I-9 forms completed since Corrections provided the training and continue to find errors in both sections 1 and 2 of the I-9 form. These errors include hire dates that did not match dates in the human resource system, incomplete certification dates, and late employer certifications.

While we recognize the efforts performed by Corrections, we again recommend that Corrections create policies and procedures that describe the proper completion of the I-9 form. We also recommend that the Human Resource Division continue their training efforts and on-site field reviews of these forms.

AGENCY HIGHLIGHTS

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 parole activities with the Parole Board. Corrections provides the Parole Board with services that include processing financial transactions and preparing financial reports. This report describes later, in more detail, the operations of each of Corrections’ programs and the Parole Board.

Corrections Funding

Corrections’ primary source of funding is General Fund appropriations, which pay 99 percent of the operating expenses. Corrections also receives monies through federal grants and for housing out-of-state inmates. The following schedule compares selected operating statistics for the past six fiscal years.

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Average annual cost per inmate	\$20,142	\$20,401	\$21,248	\$23,123	\$22,830	\$24,332
Total operating budget (in millions)	<u>\$ 768</u>	<u>\$ 774</u>	<u>\$ 814</u>	<u>\$ 874</u>	<u>\$ 895</u>	<u>\$ 1,001</u>

Sources: Management Information Summary Report and Population Summary prepared by Corrections and Chapter 3 Appropriation Act with the Virginia Parole Board’s FATS transactions

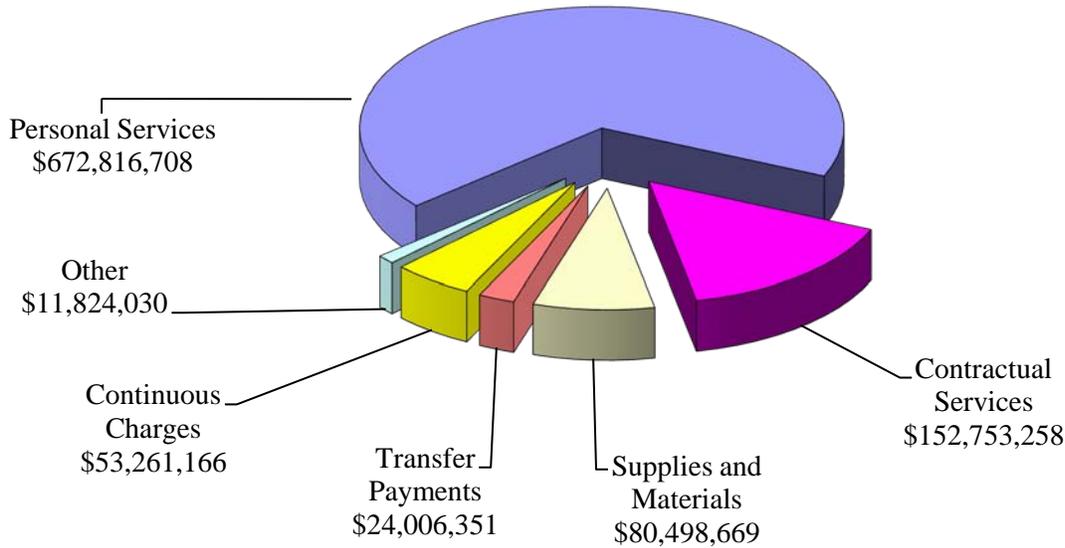
Even though Corrections’ funding received during fiscal year 2008 decreased from the Governor’s original budget proposal as a result of the State’s budget reduction, Corrections’ final budget increased approximately \$106 million over its fiscal year 2007 final budget. Much of this budget increase results from opening and operating new facilities.

- Green Rock Correctional Center (\$18.5 million)
- Pocahontas State Correctional Center (\$16.1 million)
- The second phase of the replacement facility for St. Brides Correctional Center (\$9.5 million)

The rest of the increase results from the four percent salary increase for the correctional officers (\$7.4 million) and for the development of the offender management system (\$5.3 million).

Corrections’ second largest expense item is contractual services. Corrections has several large contracts for services at various facilities including food services, medical and prescription drug services, and phone services. The following chart shows total operating expenses by type for fiscal year 2008.

Operating Expense by Type



Source: The Commonwealth's Accounting and Reporting System (CARS)

In addition to the expenses discussed above, Corrections contractual services expenses also include capital outlay and maintenance reserve expenses. In fiscal year 2008, Corrections spent \$52 million for capital outlay. The following lists some of the largest projects.

- \$16.7 million for construction of the Mount Rogers medium security correctional facility,
- \$11.9 million for Phase II of the St. Brides Correctional Center,
- \$5.3 million for the completion of the Pocahontas State Correctional Center,
- \$2.8 million for the upgrade of the Water Treatment Plant at the Virginia Correctional Center for Women,
- \$2.4 million for the Green Rock Correctional Center expansion, and
- \$2.2 million for the Sussex I and II construction of a new firing range.
- Maintenance reserve expenses totaled \$4 million for fiscal year 2008.

The following table summarizes Corrections' budget and actual operating activity for fiscal year 2008:

Budget and Actual Expense Analysis by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Operation of secure correctional facilities	\$806,648,873	\$ 807,298,784	\$805,567,729
Supervision of offenders and re-entry services	82,999,180	89,431,323	89,021,346
Administrative and support services	65,552,214	81,715,538	79,026,025
Operation of state residential community correctional facilities	<u>19,482,412</u>	<u>22,039,458</u>	<u>20,789,358</u>
Total	<u>\$974,682,679</u>	<u>\$1,000,485,103</u>	<u>\$994,404,457</u>

Information on each of Corrections' program areas and the Parole Board is provided below.

Operation of Secure Correctional Facilities

The Operation of Secure Correctional Facilities Program represents efforts to house and supervise persons convicted of crimes and committed to the state to serve their sentences. This program includes the following service areas: Supervision and Management of Inmates, Rehabilitation and Treatment Services, Prison Management, Food Services, Medical and Clinical Services, Agribusiness, and Physical Plant Services. This report excludes the service area for the Virginia Correctional Enterprises from the Operation of Secure Correctional Facilities Program's information above and is in the Virginia Correctional Enterprises' section of the audit report below.

Supervision of Offenders and Re-entry Services

The Supervision of Offenders and Re-entry Services Program represents efforts to provide supervised custody of offenders within the community as an alternative to institutionalization and to continue the provision of community rehabilitative services to them after their release from confinement. This program includes the following service areas: Probation and Parole Services, Day Reporting Centers, Community Residential Programs, and Administrative Services.

During fiscal year 2008, this Program's final budget increased by approximately \$6.4 million over the original budget. This increase is the result of a \$5.6 million transfer from the Administrative and Support Services Program to realign the agency's appropriation to correspond with Corrections' operating budget and a \$1.2 million transfer from Operation of Secure Correctional Facilities Program to realign funding from Central Appropriations relating to the salary increase for correctional officers.

Administrative and Support Services

The Administrative and Support Services Program represents the administrative management and direction for all of Corrections' activities. These activities include the following: General Management and Direction, Information Technology, Accounting and Budgeting, Architecture and Engineering, Personnel, Planning and Evaluation, Procurement and Distribution, the Training Academy, and Offender Classification and Time Computation.

During fiscal year 2008, this Program's final budget increased by approximately \$16.2 million over the original budget. This increase is the result of a \$47 million transfer from Central Appropriations for employee compensation and benefit supplements and was offset by transfers of approximately \$22 million to other agency programs to realign appropriations to correspond with the agency's operating budget. Additionally, the Governor's fiscal year 2008 budget reduction plan reduced the program by \$3.2 million, there was an increase of \$2.6 million in the transfer to Central Appropriations for the changes in the rates paid to Virginia Information Technologies Agency and additional \$2.5 million went to other programs to realign funding based on projected year-end expenses.

Operation of State Residential Community Correctional Facilities

The Operation of State Residential Community Correctional Facilities Program represents efforts to operate community detention and diversion centers for offenders assigned to them by courts in lieu of incarceration in secure prisons. This program includes the following service areas: Community Facility Management, Supervision and Management of Probates, Rehabilitation and Treatment Services, Medical and Clinical Services, Food Services, and Physical Plant Services.

During fiscal year 2008, this Program’s final budget increased by approximately \$2.6 million over the original budget due to a \$2.5 million transfer from the Administrative and Support Services Program to realign the agency's appropriation to make it correspond to the Corrections’ operating budget.

Virginia Parole Board

Budget and Actual Expense Analysis by Program for Fiscal Year 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Probation and parole determination	\$692,363	\$810,667	\$755,725

The Probation and Parole Determination program within the Virginia Parole Board enables Corrections the ability to investigate and supervise sentenced felons and multi-misdemeanants in the community under conditions of Probation, Post-Release or Parole, and special conditions as set by the Court or the Parole Board. The Commonwealth abolished parole for felonies committed on or after January 1, 1995, but over 75 percent of the “no parole” offenders have supervised probation following incarceration.

Duties within this activity include: case supervision, surveillance, assuring safety and security of staff, providing transitional services to offenders returning to communities, home visits, investigations and other work in support of the Courts, arrest record checks, urinalysis, referral to or direct provision of treatment services, maximizing the use of technology, and support for transfer of supervision to other localities or states. The objectives of these services are to assure that an offender does not pose a threat to the community, to offer offenders opportunities to modify behavior and attitudes, and to effect positive changes in offenders through supervision and intervention.

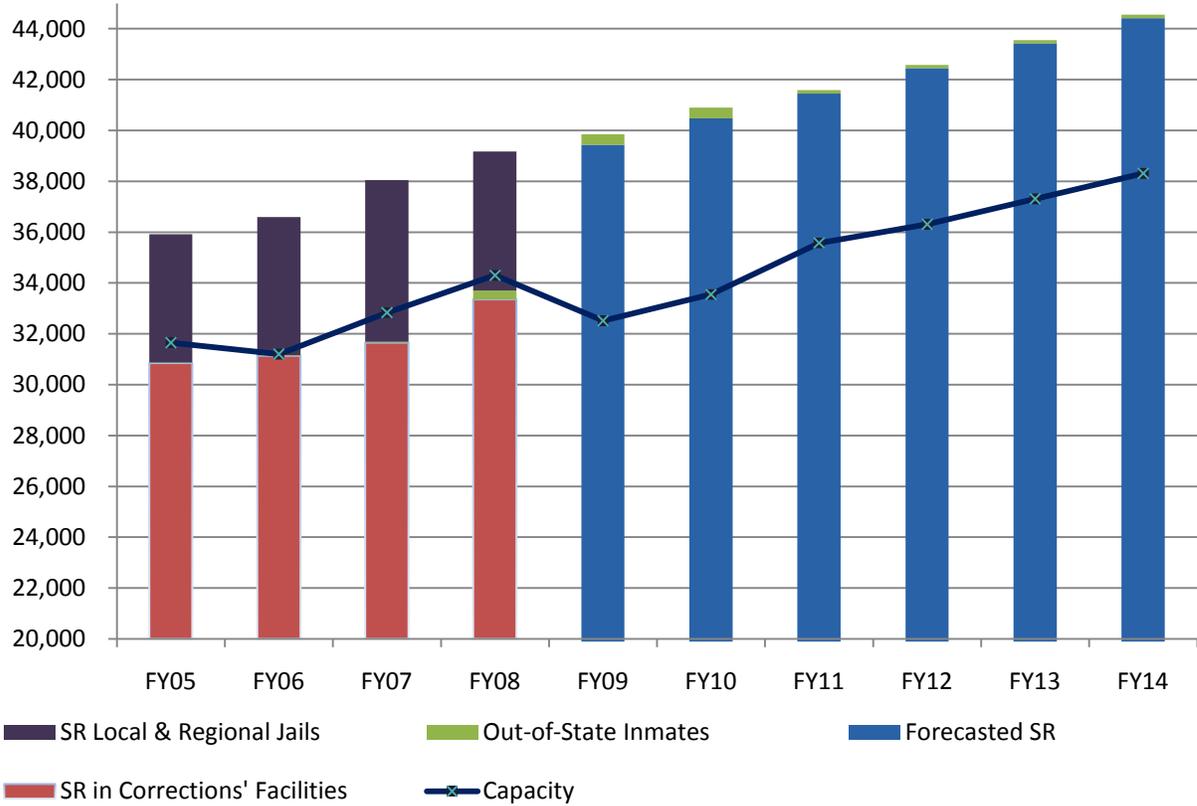
In fiscal year 2008, there were no significant changes between the original and final budgets for this Program.

Inmate Population Forecasts and Capacity

Corrections and the Secretary of Public Safety regularly estimate and analyze inmate population, trends, and facility capacity. The Secretary of Public Safety provides an annual report in October to the Governor and General Assembly that shows offender population forecasts for the next six years. Experts from state government including the Departments of Planning and Budget, Juvenile Justice, Corrections, Criminal Justice Services, Virginia Parole Board, State Police, Compensation Board, Supreme Court, Senate Finance, House Appropriations, and the Virginia Sheriff’s Association work along with researchers, methodologists and analysts to prepare the offender forecast.

The Secretary of Public Safety’s forecasts includes all state responsible inmates, including those temporarily housed in local jails, serving their sentence in a local jail, or in a local jail work release program. Corrections uses the Secretary’s forecasts and makes adjustments to account for those locally jailed inmates when estimating their future inmate populations that need to be housed in Correction’s facilities. The following graph shows the actual and projected state responsible population and out-of-state inmates and the capacity forecasts through 2014.

State Responsible Inmate Population and Prison Capacity Analysis



*Sources: Corrections' Master Plans and Offender Population Forecast Reports
Legend: SR represents State Responsible.*

Corrections continues to use the double-bunking of inmates and temporary beds to maximize their capacity. Most facilities have already reached their maximum capacity for double-bunking, and there are approximately 913 temporary beds statewide. Corrections has a long-term goal to discontinue the use of temporary beds but must use these beds in order to relieve the critical inmate backlog in local and regional jails, referred to as out-of-compliance inmates. Corrections calculates the number of out-of-compliance inmates daily and as of February 2009, there were approximately 2,745 out-of-compliance State responsible inmates in local and regional jails. Inmates classified as out-of-compliance have remained in local jails past the 60 day period that Corrections has to retrieve the inmate from the jail.

In addition to the out-of-compliance amount, differences between capacity and the forecasted State responsible inmates includes the following.

- Inmates within the 60 day period before transport to a Corrections' facility
- Where Corrections has not received the court order to allow for their transport from the jail to a Corrections' facility

- State responsible inmates who are serving their sentence in jail at the request of the jail
- Inmates, who are State responsible, but are under a jail contract, work release or re-entry stage of their sentence

Out-of-state inmates represent only a small percentage of inmates housed by Corrections. These out-of-state inmates reached their historical high of 345 inmates in fiscal year 2008 due to the increased funding effort in the previous year to compensate for budget reductions. Due to the current economic situation and number of inmates in out-of-compliance status, Corrections expects to significantly decrease the renting of beds in fiscal year 2011 once the out-of-state contracts expire.

The prison capacity increases in fiscal years 2007 and 2008 reflect the construction of new prisons and additions to existing prisons. This construction included an expansion at the Deerfield Correctional Center and construction of the new Green Rock and the Pocahontas Correctional Centers. Capacity decreased in fiscal year 2009 due to the facilities closures of the Southampton Correction Center, Dinwiddie Correctional Unit, Pulaski Correctional Center, and Tazewell Correctional Unit, representing a total loss of approximately 1,300 beds. Fiscal years 2009 through 2014 identify an increase in capacity based on the assumption that projected construction needs of almost 8,000 beds will continue to meet Corrections' needs. However, Corrections does not have the funding or approval for the majority of these needs. Depending on the future economy and budget changes, Corrections plans to continue to adjust its projections as necessary.

Prison Privatization

Corrections has one privately-operated medium security prison in Lawrenceville which opened in 1998. The Geo Group, Inc. (formerly the Wackenhut Correctional Corporation) is operating the prison under a contract with Corrections that requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The facility houses only male inmates and does not have a major medical facility. The contract per diem rate is currently \$40.63 for the first 1,425 inmates and \$6.87 for each inmate above 1,425. The contract adjusts the per diem rates annually on March 23 based on the Consumer Products Index for wage earners. Also under the contract, the GEO Group must maintain the American Corrections Association (ACA) accreditation and meet Corrections' internal standards. In its most recent re-accreditation inspection, the Lawrenceville Correctional Center met 100 percent of mandatory and 100 percent of non-mandatory ACA standards and received its reaccreditation again in January 2007.

Budget Reduction Impact

When job and income growth slowed, Corrections prepared for the slowing economy by curtailing discretionary expenditures and saving money from fiscal year 2008 to carry over into fiscal year 2009. For fiscal year 2008, Corrections has a general fund appropriation reduction of \$18.9 million. The continued slowing of the national economy necessitated a recent reforecast and additional budget cuts for fiscal years 2009 and 2010. For fiscal year 2009, reductions for Corrections totaled \$15.4 million in general funds and \$22.8 million in non-general funds as well as the elimination of 667.5 positions as stated in the 2009 Executive Budget Document. For fiscal year 2010, reductions totaled \$41.8 million in general funds and \$21.3 million in non-general funds.

Significant changes will occur as a result of these budget changes beginning in fiscal year 2009. Some of the most substantial reduction strategies included the closure of Corrections' facilities including many older or smaller facilities, such as the Chatham Diversion Center, Dinwiddie Field Unit, Pulaski Correctional Center, Southampton Correctional Center, Tazewell Field Unit, and White Post Detention Center. Also, fiscal employees have had to take on greater responsibilities for fiscal positions eliminated to meet budget reductions.

VIRGINIA CORRECTIONAL ENTERPRISES

AUDIT FINDINGS AND RECOMMENDATIONS

Strengthen Job Validation Policies and Procedures

Virginia Correctional Enterprises (VCE) needs to strengthen their job validation procedures by addressing how to handle rejected jobs. The job validation process is the method to accumulate, compare and verify all the materials, time and other costs it takes VCE to complete an order, and is therefore a critical control to help ensure the proper costing of products. We reviewed supporting documentation for a sample of eight job validations and found that the Industry Group Manager rejected four (50 percent) of the validations due to missing or incorrect information. VCE's current procedures do not address how to handle and correct rejected job validations; therefore, VCE staff did not re-perform the validations. Since there was no correction and re-submission of the job validations, VCE did not verify the accuracy of the costing information for these jobs.

We recommend that VCE update their policies and procedures to include a process for handling job validation rejections. In addition, VCE management should stress the importance of complete and accurate information to help strengthen the job validation process.

Improve Controls for Processing Transaction in both CARS and Syteline

VCE has one individual who has the ability to enter transactions into both Syteline and CARS, and release batches into CARS while also performing and certifying the monthly reconciliation between the two systems. Furthermore, there is no documentation that the Fiscal Director reviews or approves these reconciliations. Therefore, VCE has no separation of duties, and one individual completely controls the processing of transactions in CARS and Syteline, with limited or no supervision or review.

VCE should institute separation of duties and responsibilities over entering, processing and reconciling information between their accounting systems. In addition, the Fiscal Director should perform a detailed monthly review of all reconciliations.

AGENCY HIGHLIGHTS

The Department of Corrections (Corrections) has operated Virginia Correctional Enterprises (VCE) since 1934 as one of its many work programs for inmates. The Code of Virginia requires VCE to provide job skill training and wage earning opportunities for Corrections' inmates. As of June 30, 2008, VCE employed 1,574 inmates housed in State correctional facilities. These inmates work in 26 operations at fifteen institutions. VCE also employs approximately 175 civilian staff who work in the central office and warehouse in Richmond or in the various correctional facilities throughout the state.

Section 53.1-47 of the Code of Virginia requires all Commonwealth departments, institutions, and agencies, supported in whole or in part with funds from the state treasury, to purchase goods manufactured by VCE. Agencies must obtain a waiver in order to purchase the same goods VCE manufactures from another vendor. Currently, state agencies account for approximately 56 percent of sales and colleges and universities, local governments, and not for profit businesses purchase the remaining 44 percent.

Financial Summary

VCE is a self-sufficient operation, paying for all expenses from monies collected for sales of its goods and services. VCE sales and operating income decreased only slightly from FY 2007 to FY 2008 as a result of budget reductions in state government. The following information from VCE's internal accounting system summarizes financial results for fiscal year 2007 and 2008.

	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Charges for sales and services	\$48,680,695	\$48,736,411
Cost of goods sold:		
Raw materials consumed	20,440,139	21,276,088
Inmate compensation	<u>1,561,052</u>	<u>1,629,590</u>
Total cost of goods sold	22,001,192	22,905,678
Manufacturing overhead	13,337,856	12,389,898
Administrative and warehouse expenses	<u>11,707,354</u>	<u>10,874,682</u>
Total cost of goods, overhead, and operating expenses	<u>47,046,402</u>	<u>46,170,258</u>
Operating income	1,634,293	2,566,153
Transfers to the General Fund	(887,397)	(1,021,630)
Other income	<u>729,466</u>	<u>403,567</u>
Non-operating revenues/(expenses)	(157,931)	(618,069)
Net income	<u>\$ 1,476,363</u>	<u>\$ 1,948,084</u>

Sales and Inventory Information by Industry

VCE operates thirteen industries. Of these industries, the wood industry is the largest in sales volume, accounting for over 24 percent of all sales, and is largest in inventory volume, accounting for over 42 percent of all inventories in fiscal year 2008. Overall, there are five industries which account for the majority of sales and inventory as shown below.

	<u>Revenue</u>	<u>Inventory</u>
Wood	\$11,801,545	\$ 5,365,934
Key Office Systems	9,558,453	1,869,027
Tags	7,335,945	1,845,358
Clothing	5,718,125	1,345,768
Metal	4,378,978	1,341,971
Other	<u>9,887,649</u>	<u>920,627</u>
Total	<u>\$48,680,695</u>	<u>\$12,688,685</u>

The inventory balance consists of raw material, work-in-progress, and finished goods for all industries. VCE maintains a perpetual inventory system. The plant staff performs a complete inventory count each February, instead of fiscal year end, due to increased orders and high production towards the end of the fiscal year. During the last quarter of the fiscal year, VCE increases the number of test counts at each plant to ensure that the plants are correctly reporting inventory balances at fiscal year end.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 22, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Corrections, Virginia Parole Board, and Virginia Correctional Enterprises** (herein collectively identified as the Department) for the year ended June 30, 2008. 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 objective was to evaluate the accuracy of the Department's inventory, payroll, and capital outlay balances and transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia and in the SyteLine system for Virginia Correctional Enterprises (VCE) for the year ended June 30, 2008. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, reviewed the adequacy of the Department's internal control, tested for compliance with applicable laws and regulations, and reviewed corrective actions of audit findings from the prior year reports.

Audit Scope and Methodology

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.

We gained an understanding of the overall internal controls, both automated and manual, including controls for administering compliance with applicable laws and regulations, 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
Expenditures including payroll and,
for VCE only, cost of goods sold
Contract management
Capital outlay
Inmate trust funds
Commissary funds
Inventory
Revenues and cash receipts for VCE only
Performance measures

We performed audit tests we deemed necessary 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in SyteLine. VCE records its financial transactions in its accounting records on the accrual basis of accounting. All other entities within the Department record their 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, the Department's Annual Management Information Summaries Report, Master Plan Reports, and VCE's accounting records and financial reports.

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 sections entitled "Audit Findings and Recommendations."

The Department has not taken corrective action with respect to audit findings reported in the prior report. These matters entitled "Improve Controls and Processes Surrounding Capital Assets and Construction in Progress," "Enforce Inventory Procedures," "Develop Internal Controls for Leave Liability and Time Tracking System," and "Properly Complete Employment Eligibility Verification Forms" are repeated in the section entitled "Audit Findings and Recommendations." The Department has taken corrective action on prior year findings that are not repeated in this report.

Exit Conference And Report Distribution

We discussed this letter with management on May 14, 2009. Management's response has been included at the end of this report.

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

KKH/alh



COMMONWEALTH of VIRGINIA

Department of Corrections

GENE M. JOHNSON
DIRECTOR

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May 14, 2009

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

RE: APA Audit Report on the Department of Corrections, Virginia Parole Board and Virginia Correctional Enterprises for the Fiscal Year Ended June 30, 2008.

Dear Mr. Kucharski:

Enclosed is the Department of Corrections' response to the Auditor of Public Accounts (APA) report on the examination of the Department, the Virginia Parole Board and Virginia Correctional Enterprises for the fiscal year ending June 30, 2008. We appreciate the opportunity to respond to the report findings prior to formal publications of the report.

We believe the Department of Corrections and Virginia Correctional Enterprises have viable responses, accompanied by corrective action plans which are appropriate and specifically address the issues raised by the APA. Combined with actions already taken and currently under way, the Department's objective to comply with applicable laws and regulations will serve to strengthen and control our operations and financial records.

Please let me know should you have any questions regarding this response.

Sincerely,

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

N.H. Scott
Deputy Director
Administration

Enclosure

cc: Mr. Gene M. Johnson
Mr. David A. Von Moll
Mr. Louis B. Eacho

APA AUDIT REPORT FOR FISCAL YEAR 2008
APA FINDINGS & RECOMMENDATIONS
DEPARTMENT OF CORRECTIONS RESPONSES & ACTION PLANS

APA FINDING #1 – Improve Controls and Processes Surrounding Capital Assets and Construction in Progress

The key problems with Corrections' process for tracking and reporting of construction in progress is the number of functional units involved in the process, the lack of effective communication between those units, and human error. Architectural and Engineering Services (A/E Services) receives all invoices for capital projects, maintains a list of these invoices by project, and provides Financial Services with a total by project quarterly. Financial Services records construction in progress in FAACS. When a project is complete, A/E Services prepares a project recap sheet that details the amounts that need to move from construction in progress to specific asset classifications and provides this to Financial Services. Financial Services does not record these reclassifications, but instead sends the information to the individual facilities to record. In addition, facilities purchase project related equipment, request reimbursement from A/E Services, and record the asset in FAACS. A/E Services records the project expense in its project listing, resulting in double counting of the item as an asset and construction in progress in FAACS. The communication process between A/E Services, Financial Services, and the individual facilities is not effective resulting in untimely and inaccurately recording of construction in progress and assets.

DOC RESPONSE

DOC concurs with the above finding. DOC recognizes the continued problems related to the area of recording Capital Assets and Construction in Progress. Management attributes the prior problems in these areas to be attributed to understaffing, turnover of staff that is not adequately trained and ineffective oversight. As was mentioned in APA findings, DOC has had to initiate significant reductions to its appropriation this fiscal year which have had a direct impact to the Controller's Unit. It was determined necessary for the Department to eliminate its Controller, the Controller's Administrative Assistant, Financial Reporting Manager and two Financial Reporting staff (one who had responsibilities for CIP submissions and FAACS). To address these losses, DOC has reorganized remaining units in the Office of the Controller (General Accounting, Budget, Payroll and Financial Systems) into the Financial Management and Reporting Unit.

For the short term, it has been determined that selected DOC Budget Office staff will be responsible for handling construction in progress activity, as well as being responsible for coordinating entries into FAACS. DOC Budget Office staff was deemed the most effective option to take on this responsibility due to their fiscal/quantitative skills, overall agency knowledge, existing close communication with key Capital Outlay and facility staff and ability to manage this process consistently and centrally.

For the long term, DOC is committed (if it is continued to be deemed necessary) to identify a full-time resource to coordinate CIP and FAACS. Please note that DOC believes (a) its short term solution will be proven effective and (b) in the absence of new funding, it must balance providing administrative staff against the ongoing requirement of ensuring adequate staff are in place to meet its ongoing public safety requirements.

ACTION PLAN

DOC has reached out to both DOA and APA to ensure this transition is accomplished effectively and efficiently. DOC management has held initial meetings with both agencies in November 2008. Training from DOA/APA to Budget staff selected to handle Construction in Progress and FAACS began on December 18th, 2008. Key Capital Outlay finance staff also participated to ensure the process is handled correctly and efficiently. DOC is committed to work with DOA/APA for as long as required to ensure this issue is resolved

promptly following a methodology that is both practical to DOC given our limited resources and deemed acceptable to no longer be considered as an audit finding.

RESPONSIBLE POSITION

DOC Budget Manager, Financial Management & Reporting Unit

DUE DATE

4TH Quarter of FY2009 (assuming training requirements are completed and questions regarding methodology to determine expenses/Capital Asset values are resolved).

APA FINDING #2 – Enforce Inventory Procedures

Corrections should continue to enforce their existing procedures for taking physical inventory and pricing items in the inventory system. Corrections' Procedure 6-26 provides detailed instructions for warehouse employees to follow that will ensure accurate physical inventory counts; however, the high percentage of discrepancies indicates that the employees did not follow these instructions. We recommend that Corrections regularly train warehouse employees in the proper way to conduct an inventory and hold the training as close as practicable to the taking of the inventory. Corrections should also review their current inventory suggested practices and system to determine if these processes are adequate. Corrections should consider using their Internal Audit Department to assist in this review and perform a follow-up in those facilities with the most risk.

DOC RESPONSE

DOC concurs with the above finding. DOC management plans the following actions to more strongly enforce and ensure adherence to the existing procedures pertaining to the annual materials and supplies physical inventory.

ACTION PLAN

- Prior to the annual inventory, each Regional Director will assign appropriate staff in each Regional Office to provide training to those employees responsible for the inventory process at each facility. This training is to include a detailed review of Corrections Procedures 6-26 to ensure consistent inventory practices will be followed throughout the Department.
- Prior to any APA Auditors conducting inventory audits, the individual responsible for the inventory at each facility will meet with the APA Team and ensure they are familiar with any DOC Materials and Supplies inventory procedures that may impact the count, i.e. "in use" items.
- Wardens and Superintendents shall ensure Business Office Staff and Warehouse Managers increase their oversight and guarantee adequate test counting during the physical inventory process, as required by Corrections Procedure 6-26. Count checkers shall perform the mandated random sample test counts of items inventoried by the counters/listers.
- Wardens and Superintendents shall ensure proper separation of duties will be maintained by making sure all counts are performed by a team of two individuals, one counter and one lister. In addition, any adjustments to inventory records shall be independently performed by another person.
- Although DOC's Internal Auditors currently conduct warehouse inventory audits during routine site visits to facilities, until this problem is resolved, the DOC Internal Auditors will annually conduct audits targeted at selected facilities with the intent of ensuring those responsible for the inventory are following and enforcing Corrections Procedure 6-26.

RESPONSIBLE POSITIONS

Wardens and Superintendents, or their designee

DUE DATE

4th Quarter of FY 2009

APA FINDING #3 – Develop Internal Controls for Leave Liability and Time Tracking System

Corrections time and leave system (DOCXL) used at their facilities continues to have inadequate internal controls resulting in unreliable data. Best practices such as audit trails, controls to prevent changes to formulas and computations, and the capture of all transactional activity do not exist in DOCXL. Corrections would be an ideal candidate to implement an enterprise time and effort system; however, the probability of and timeframe for implementing this enterprise solution is uncertain at this time. As an interim solution we recommend that Corrections consider purchasing or developing a more robust time and effort system that provides adequate internal controls. Using Excel to manage the time and effort for an organization with more than 11,500 employees and numerous facilities is not adequate. Excel does not provide adequate security, an audit trail of transactions, and control changes to ensure the accuracy of how the system performs the calculations. Until Corrections replaces DOCXL, the accuracy of time and leave data at Corrections is questionable and identifying that someone inaccurately reported or modified recorded time or leave is also questionable.

DOC RESPONSE

DOC concurs with the above finding. The DOCXL system while unconventional and not perfect, has provided the DOC with significant efficiencies in time and leave liability management. Not only have these efficiencies benefited our agency internally but most recently the benefit of this system to the Commonwealth was discovered during the annual reporting of agency total leave liabilities; the DOCXL system improved both the accuracy and timeliness of our information collection and reporting.

The DOCXL committee has made significant improvement in the system in 2008 in response to the issues raised during the 2007 audit. The committee was not able to address all the internal control issues that were raised but in instances where modifications could not be affected as listed in the issues/findings attempts were made to address the intent of the issue and provide a reasonable remedy. The DOC will continue to pursue remedies and solutions that provide more stringent internal controls, as feasible. However, the reality is the system's limitations may not allow the DOC to meet all the expectations of the APA. The DOCXL committee will continue to address the issues presented in 2009 and has several new modifications to the template that will provide a more robust and safe data source for time and leave.

The DOC is under the impression that the APA recognized the "catch 22" situation the Department is in with no other current leave and timekeeping system available to meet the business needs of the agency and the new statewide system not yet developed. It does not seem to be a good investment of the Department's limited funding for a timekeeping system when there is development of a statewide system.

ACTION PLAN

DOC has made numerous enhancements to the 2009 DOCXL template that will address a significant portion but not all of the issues identified in the audit. DOC has already, or will be

- Limiting the level of access.
- Creating linking feature that limits need for manual input.
- Continuing to address the issues presented by the APA while maintaining use of DOCXL until a new system opportunity exists.

RESPONSIBLE POSITIONS

Employee Relations Manager, Employee Relations Unit.

DUE DATE

Any modifications which are feasible will be made within the first quarter of 2009.

APA FINDING #4 – Properly Complete Employment Eligibility Verifications Forms

Our prior audit report identified that Corrections did not properly complete Employment Eligibility Verification (I-9) forms in accordance with guidance issued by the United States Citizenship and Immigration Services of the United States Department of Homeland Security in its Handbook for Employers. This guidance requires:

- The employee to complete, sign, and date Section 1 of the I-9 form on the first day of employment.
- The employer or designated representative to complete, sign, and date Section 2 of the I-9 form within three days of employment.

We previously recommended that Corrections maintain its own documented policies and procedures that specify the day-to-day operating procedures for I-9 completion, including who is responsible for carrying out these policies. We again recommend that Corrections create policies and procedures that describe the proper completion of the I-9 form. We also recommend that the Human Resource Division continue their training efforts and on-site field reviews of these forms.

DOC RESPONSE

DOC concurs with the above finding. On June 26, 2008, a training session on the requirements and proper completion of I-9s was provided to all of the HR staff. The I-9 form was reviewed line by line with specific instructions on its proper completion. There was ample opportunity for HR staff to ask questions on any aspect of the training that was not understood. In addition, an HR Manager and an HR analyst from Headquarters, both of whom are versed in I-9 requirements, reviewed the I-9 requirements with HR staff during their site visits throughout the year.

We understand that accurate completion of the I-9 form is a federal requirement and that we are subject to fines for inaccurate information. As such we take the finding of this audit very seriously. However, I-9s do contain thorough instructions for completion within the form which makes a separate written policy or procedure a redundancy and we do not believe that a written policy or procedure will provide a solution for a lack of attention to detail.

ACTION PLAN

- The Employee Relations Manager and the Human Resources Manager will share the audit findings with all HR staff and provide a remedial training on the requirements and proper completion of the I-9 form (to be completed by January 31, 2009).
- The Employee Relations Manager and the Human Resources Manager will issue a memorandum to all Unit Heads and HR staff advising them that continued inaccuracies related to the completion of I-9 forms will be dealt with as a job performance issue (to be completed by January 31, 2009).
- For those agencies that were identified in the audit, the Human Resources Manager will conduct discussions with the respective Unit Head advising them to address, with the identified HR staff member, the inaccuracies found during this audit as a job performance issue (to be completed by January 31, 2009).
- The Department will continue to have the Human Resources Managers at Headquarters review the I-9 process as they make site visits throughout the year.

RESPONSIBLE POSITIONS

Employee Relations Manager and Human Resources Manager, Employee Relations Unit

DUE DATE

January 31, 2009.

**APA AUDIT REPORT FOR FISCAL YEAR 2008
APA FINDINGS & RECOMMENDATIONS
VIRGINIA CORRECTIONAL ENTERPRISES RESPONSES & ACTION PLANS**

APA FINDING #1 – Strengthen Job Validation Policies and Procedures

Virginia Correctional Enterprises (VCE) needs to strengthen their job validation procedures by addressing how to handle rejected jobs. The job validation process is the method to accumulate, compare and verify all the materials, time and other costs it takes VCE to complete an order, and is therefore a critical control to help ensure the proper costing of products. We reviewed supporting documentation for a sample of eight job validations and found that the Industry Group Manager rejected four (50%) of the validations due to missing or incorrect information. VCE's current procedures do not address how to handle and correct rejected job validations; therefore, VCE staff did not re-perform the validations. Since there was no correction and re-submission of the job validations, VCE did not verify the accuracy of the costing information for these jobs. We recommend that VCE update their policies and procedures to include a process for handling job validation rejections. In addition, VCE management should stress the importance of complete and accurate information in the job validation process to help strengthen the job validation process.

VCE RESPONSE

Management acknowledges APA's recommendation. However, VCE stresses its multi-faceted mission of: 1) providing programming for inmates; 2) sustaining itself financially; 3) assessing each project for benefits related to maximizing the number of offenders being trained in job-related skills; and 4) providing products that not only enhance the operation of DOC but meet the needs of other entities (i.e. colleges, hospitals and various state agencies).

ACTION PLAN

Management will update the procedures to address rejected jobs and ensure that the minimum numbers of acceptable jobs are validated for each shop.

RESPONSIBLE POSITIONS

Manager of Codes and Standards

DUE DATE

4th Quarter FY2009

APA FINDING #2 - Improve Controls for Processing Transaction in both CARS and Syteline

VCE has one individual who has the ability to enter transactions into both Syteline and CARS, and release batches into CARS while also performing and certifying the monthly the reconciliation between the two systems. Furthermore, there is no documentation that the Fiscal Director reviews or approves these reconciliations. Therefore, VCE has no separation of duties, and one individual completely controls the processing of transactions in CARS and Syteline, with limited or no supervision or review. VCE should institute separation of duties and responsibilities over entering, processing and reconciling information between their accounting systems. In addition, the Fiscal Director should perform a detailed monthly review of all reconciliations.

VCE RESPONSE

Management concurs with APA's finding.

ACTION

Perform a detailed monthly review of the CARS reconciliations and re-assign CARS data entry duties currently assigned to the Accounting Manager to ensure proper separation of duties.

RESPONSIBILITY

Business Manager

DUE DATE

4th Quarter FY2009

AGENCY OFFICIALS

DEPARTMENT OF CORRECTIONS

Gene Johnson, Director

John Jabe, Deputy Director

N.H. "Cookie" Scott, Deputy Director

James R. Camache, Deputy Director

H. Paul Broughton, Deputy Director

Louis Eacho, Fiscal Officer

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