



DEPARTMENT OF CORRECTIONS
THE VIRGINIA PAROLE BOARD
VIRGINIA CORRECTIONAL ENTERPRISES

FOR THE YEAR ENDED
JUNE 30, 2013

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of the Department of Corrections, the Virginia Parole Board, and Virginia Correctional Enterprises for the fiscal year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Syteline;
- an instance involving internal control and its operation necessary to bring to management's attention;
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported; and
- adequate corrective action with respect to audit findings reported in prior years that are not repeated in this letter.

We did not perform audit work related to the findings from the prior year entitled "Improve Internal Controls over Voyager Fuel Cards" and "Properly Identify and Remove Systems Access for Terminated Employees." Due to the timing of the prior year report, the Department has created new policies and procedures but has not had time to implement them.

This report includes a section for the Department of Corrections, which includes the Virginia Parole Board, and a section for Virginia Correctional Enterprises.

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AUDIT FINDING AND RECOMMENDATION

Improve Internal Controls and Processes Surrounding Fixed Assets

The Department of Corrections (Corrections) does not consistently record capital assets in the Fixed Asset Accounting and Control System (FAACS) in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual and the agency's policies and procedures. Corrections had multiple instances where assets were not added or disposed in accordance with CAPP Manual Topic 30305 and Corrections Policy 230.1, Accounting for Fixed Assets:

- St. Brides Correctional Center's Business Manager did not record two of three pieces of equipment from the sample reviewed into FAACS because she did not record these pieces of equipment on the Agency Log, which tracks assets to record in FAACS. In addition, the Business Manager is not performing the weekly review of potential fixed asset purchases or she would have identified these assets for recording. As a result, assets in FAACS are understated by \$67,615 for fiscal year 2013.
- St Brides Correctional Center's Business Manager could not provide evidence that she performed FAACS reconciliations from August 2012 through May 2013. In May 2013, the Business Manager identified that she had not recorded the transfer of assets totaling \$334,443 on the Agency Log from Corrections' absorption of the Department of Correctional Education (DCE) in August 2012. The Business Manager replaced the original reconciliations with the corrected reconciliation prepared in June 2013. Since the Central Capital Asset Specialist recorded the transfer of the assets to St. Brides in FAACS in August 2012, if the Business Manager had been properly performing the reconciliations, she would have discovered the difference between FAACS and the Agency Log immediately.
- The Business Manager at Fluvanna Women's Correctional Center improperly recorded five assets as disposed in FAACS when the five assets were still in the possession of the Correctional Center. This resulted in a \$72,096 understatement of assets.

The central capital assets oversight position created in 2012 has led to improvements in FAACS entry at Corrections. This position has strengthened controls surrounding the entry and removal of items in FAACS. However, facilities are still not always consistently adhering to the CAPP Manual and Correction's policy to ensure proper recordation in FAACS because they are not using the resources available to perform FAACS duties. The failure to record assets in FAACS could result in inaccurate financial reporting of agency assets for the Commonwealth's financial statements.

Corrections should consider implementing additional FAACS training geared towards the Fiscal Officers and employees responsible for FAACS entry at facilities. The Business Managers should properly use available resources to follow the established policies and procedures to ensure the proper recordation of capital assets in FAACS.

DEPARTMENT OF CORRECTIONS

Corrections operates Virginia's correctional facilities for adult offenders and directs the work of all probation and parole officers. Correction's mission is to enhance public safety by providing effective programs, re-entry services, and supervision of 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.

Corrections Funding

Corrections' primary source of funding is General Fund appropriations, which pay 98 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 three fiscal years.

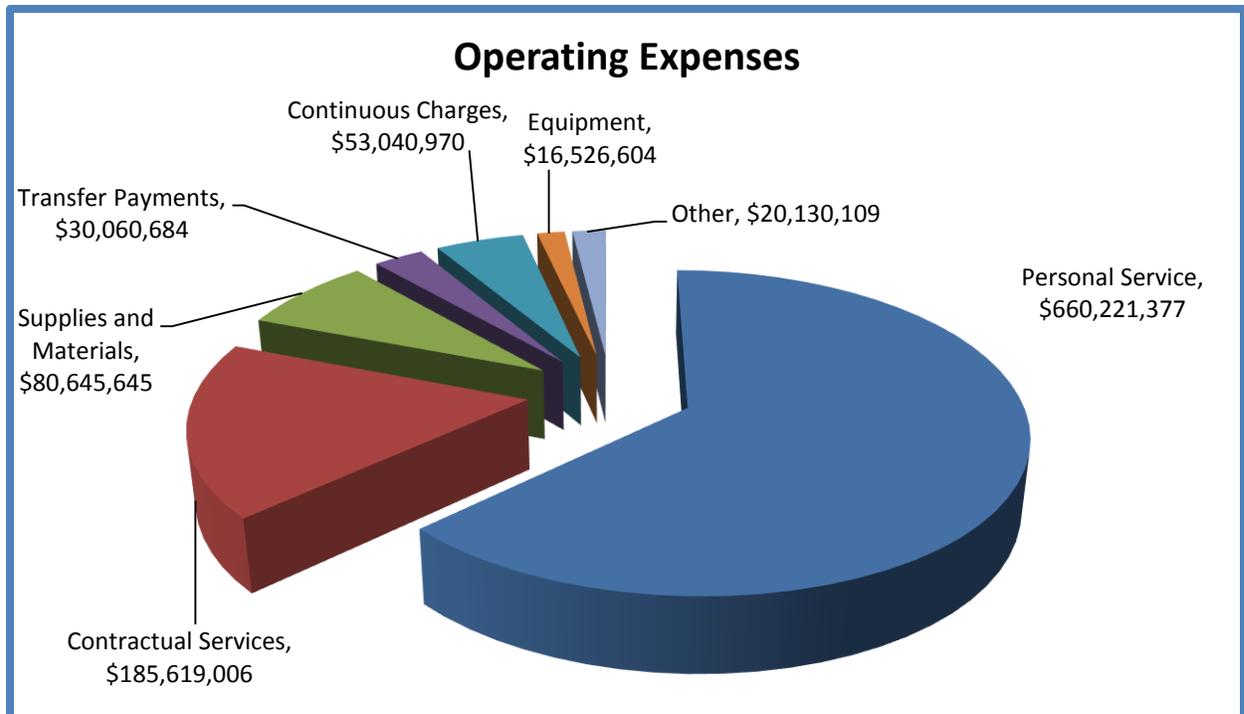
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Average annual cost per inmate	\$24,380	\$25,498	\$27,112
Total operating budget (in millions)	\$ 971	\$ 983	\$ 1,031

Sources: Corrections' Management Information Summary Report and Chapter 890 Appropriation Act with appropriation adjustments processed during the year by the Department of Planning and Budget. Table excludes Virginia Correctional Enterprises and Virginia Parole Board.

Corrections' largest expense item is personal services, which includes payroll and fringe benefit costs for the agency's employees. In fiscal year 2013, personal service expenses comprised 63 percent of total agency expenses. Corrections' authorized employment level for fiscal year 2013 was 12,665, which was a slight increase from the agency's fiscal year 2012 level. This increase represents additional positions from the merger of Correctional Education's adult program with Corrections, and the temporary loss of 26 general management positions transferred to the Office of the State Inspector General. Corrections' average employment level during fiscal year 2013 increased to 11,607.

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 2013. In addition, Corrections' contractual services expenses also include capital outlay and maintenance reserve expenses. In fiscal year 2013, Corrections spent approximately \$17.3 million for capital outlay and \$6.2 million for maintenance reserve expenses. The following lists the two largest capital outlay projects. The remaining capital expenses are from multiple upgrade, installation, and replacement projects over various building systems.

- \$3.1 million for the replacement of modular units at Marion Correctional Center
- \$3.0 million for roof replacements at multiple institutions



Source: The Commonwealth Accounting and Reporting System (CARS)

Budget Development and Execution Issues

During the budget development process, Corrections requests full funding for its authorized employment level, although the authorized level is usually greater than the agency's actual employment level each fiscal year. Corrections Budget Department calculates a vacancy rate to apply to agency operation plans. The current vacancy rate required by all facilities is 3.3 percent. The vacancy rate is not applied to medical services or to Red Onion, Wallens Ridge, and Sussex I due to the high security level. This practice results in annual savings to the agency when positions are unfilled. Corrections uses these savings to cover other operating expenses when they do not have full funding. Although Corrections' authorized position level has decreased as a result of previous budget reductions, the agency continues to have a vacancy rate that produces sufficient funds to pay for these unfunded items. During fiscal year 2013, Corrections continued to fund utility rate increases (coal, electricity, oil, steam, etc.), gasoline rate increases, information technology increases, and parole and probation leases with funds initially budgeted for employee-related expenses.

The following table summarizes Corrections' budget and actual operating activity by program for fiscal year 2013.

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Operation of secure correctional	\$ 835,020,019	\$ 855,745,678	\$ 846,565,895
Supervision of offenders and re-entry services	82,984,939	79,410,783	78,903,223
Administrative and support services	91,692,884	107,852,397	106,341,419
Instruction	-	25,210,009	25,209,948
Operation of state residential community correctional facilities	<u>17,140,956</u>	<u>17,959,639</u>	<u>17,722,292</u>
Total	<u>\$1,026,838,798</u>	<u>\$1,086,178,506</u>	<u>\$1,074,742,777</u>

Funds appropriated to and expended by the Virginia Parole Board are excluded.

During fiscal year 2013, Corrections' appropriations included funding for Instruction as a result of the transfer from Correctional Education to Corrections for providing education services for adult inmates. The other large increases between original and final budget across programs related to the three percent bonus state employees received in December 2012.

Virginia Parole Board

Budget and Actual Expense Analysis by Program for Fiscal Year 2013

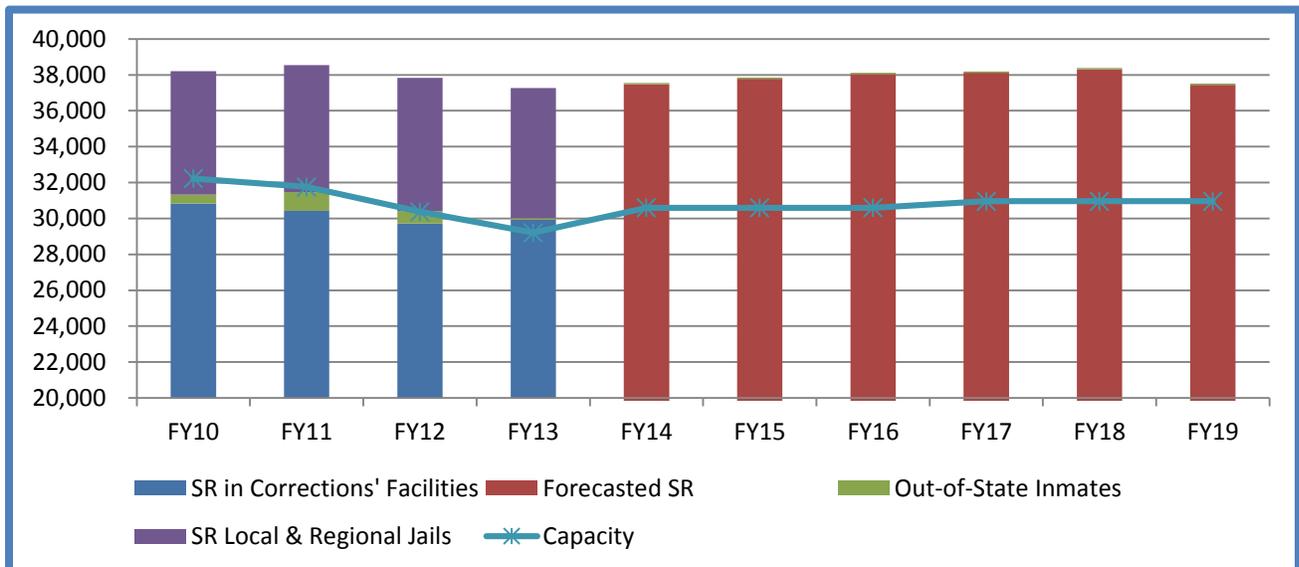
	Original Budget	Final Budget	Actual Expenses
Probation and parole determination	\$1,354,177	\$1,421,632	\$1,304,309

The Probation and Parole Determination program within the Virginia Parole Board enables Corrections 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.

Inmate Population Forecasts and 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. The Secretary of Public Safety's forecast 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 forecast 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, out-of-state inmates, and the capacity forecasts through fiscal year 2019.

State Responsible Inmate Population and Prison Capacity Analysis As of December 2013



Sources: *Corrections' Master Plans, Inmate Population Reports, Compensation Board Jail Population Reports, and the Secretary of Public Safety's Offender Population Forecast Reports*

Legend: *SR represents State Responsible.*

Corrections calculates the number of out-of-compliance inmates weekly, and as of June 30, 2013, there were approximately 4,469 out-of-compliance State responsible inmates in local and regional jails. An inmate's sentence determines whether he or she is State responsible, and only those who remain in a local or regional jail past the 60-day period are classified as out-of-compliance; therefore, the out-of-compliance figure is less than the total number of State responsible inmates in local and regional jails, but has become an increasingly larger portion of the total over the past year.

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

- Inmates within the 60-day period before transport to a Corrections facility
- Inmates for whom 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
- State responsible inmates who are under a jail contract, work release, or re-entry stage of their sentence

Corrections will continue to house approximately 70 inmates from Hawaii and the Virgin Islands and also continue to solicit other out-of-state inmates. However, there are no negotiations with any entities at this time.

Prison Opening

Corrections opened River North Correctional Center in Grayson County in October 2013. Corrections received \$800,000 in funding for fiscal year 2013 to prepare for opening the facility and \$17.2 million for fiscal year 2014 to begin operations. Corrections first priority in selecting inmates to house at River North are State responsible offenders housed in any local or regional jail which has a waiver from the Board of Corrections' "Standards of Planning, Design, Construction, and Reimbursement of Local Correctional Facilities."

VIRGINIA CORRECTIONAL ENTERPRISES

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. VCE employs approximately 1,300 inmates who work in 25 operations and two warehouses at 14 State Correctional Facilities. VCE also employs 186 civilian staff who work in the central office and warehouses in Richmond or in the various correctional facilities throughout the State.

VCE is a self-sufficient operation, paying for all expenses from monies collected for sales of its goods and services. VCE sales increased by approximately \$4 million in the current fiscal year. Substantial furniture and library shelving orders stemming from River North Correctional Center, higher education institutions, and Western State Hospital attributed to this increase in sales. The following information from VCE's internal accounting system summarizes financial results for fiscal years 2012 and 2013:

	Fiscal Year 2013	Fiscal Year 2012
Charges for sales and services	<u>\$53,601,429</u>	<u>\$49,656,699</u>
Cost of goods sold:		
Raw materials consumed	25,042,236	24,659,657
Inmate compensation	<u>1,224,337</u>	<u>1,374,729</u>
Total cost of goods sold	<u>26,266,573</u>	<u>26,034,386</u>
Manufacturing overhead	13,835,890	10,278,044
Administrative and warehouse expenses	<u>12,648,597</u>	<u>11,848,829</u>
Total cost of goods, overhead, and operating	<u>52,751,060</u>	<u>48,161,259</u>
Operating income	<u>850,369</u>	<u>1,495,440</u>
Transfers to the General Fund	(167,524)	(2,231,351)
Other income	<u>151,804</u>	<u>195,195</u>
Total Non-operating revenues/(expenses)	<u>(15,720)</u>	<u>(2,036,156)</u>
Net income/(loss)	<u>\$ 834,649</u>	<u>(\$ 540,716)</u>



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 29, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

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, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and Syteline, review the adequacy of the Department's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports. Another objective was to evaluate the accuracy of the Department's payroll and inventory records as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2013.

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, regulations, contracts, and grant agreements.

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

- Capital outlay
- Contractual services expenses
- Expenses, including payroll
- Small purchase charge card
- Inmate trust funds
- Appropriations
- Inventory
- Commissary funds
- Information System Security

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, regulations, contracts, and grant agreements. 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 a 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 Summary Reports, Master Plan Reports, and VCE’s accounting records and financial reports.

We noted a certain matter involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management’s attention and corrective action. These matters are described in the section entitled “Audit Finding and Recommendation.”

The Department has taken adequate corrective action with respect to the audit finding “Improve Information Security Program” reported in the prior year and the finding “Improve Internal Controls over Procurement of Contractual Services and Contract Administration” reported in the 2011 audit, which we did not follow up on in the prior year because the Department did not have

time to implement corrective action due to the timing of the audit.. We did not perform audit work related to the findings from the prior year entitled “Improve Internal Controls over Voyager Fuel Cards” and “Properly Identify and Remove Systems Access for Terminated Employees.” Due to the timing of the prior year report, the Department has created new policies and procedures but has not had time to implement them. Therefore, we will follow up on the finding in the fiscal year 2014 audit.

Exit Conference and Report Distribution

We discussed this report with management on May 23, 2014. Management’s response to the findings identified in our audit is included in the section titled “Agency Response.” We did not audit management’s response and, accordingly, we express no opinion on it.

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

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj



COMMONWEALTH of VIRGINIA

HAROLD W. CLARKE
DIRECTOR

Department of Corrections

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RICHMOND, VIRGINIA 23261
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May 23, 2014

Ms. Martha Mavredes
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, 2013.

Dear Ms. Mavredes:

The Department of Corrections has reviewed the Auditor of Public Accounts (APA) report pertaining to the Department, the Virginia Parole Board and Virginia Correctional Enterprises for the fiscal year ending June 30, 2013. We understand the finding and appreciate the opportunity to respond to the recommendations.

We believe the Department of Corrections will provide a viable response to the finding accompanied by a plan to appropriately and specifically address the issue raised by the APA to improve internal controls and processes surrounding fixed assets. 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

cc: Mr. Harold W. Clarke
Mr. Louis B. Eacho

DEPARTMENT OF CORRECTIONS

Harold W. Clarke, Director

A. David Robinson, Chief of Corrections Operations

N.H. "Cookie" Scott, Deputy Director, Administration

Wayne Bennett, Superintendent for Education

H. Paul Broughton, Director of Human Resources

Louis Eacho, Chief Fiscal Officer

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VIRGINIA CORRECTIONAL ENTERPRISES

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James Sacher, VCE Business Manager