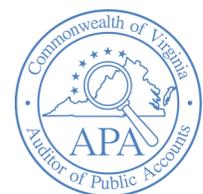




DEPARTMENT OF CORRECTIONS  
VIRGINIA PAROLE BOARD  
VIRGINIA CORRECTIONAL ENTERPRISES

FOR THE PERIOD  
JULY 1, 2013 THROUGH SEPTEMBER 30, 2014

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
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## AUDIT SUMMARY

Our audit of the Department of Corrections and the Virginia Parole Board for the period of July 1, 2013, through September 30, 2014, and Virginia Correctional Enterprises for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System with the exception of accounts payable information;
- three matters involving internal control and its operation necessary to bring to management's attention;
- three instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- all prior year recommendations were addressed and resolved by the Department.

This report includes a section for the Department of Corrections, which includes the Virginia Parole Board, and a section for Virginia Correctional Enterprises. Due to the transition of the Department of Corrections and Virginia Parole Board to CARDINAL, the state's new financial reporting system, on October 1, 2014, the audit period for these agencies was extended to include the first quarter of the 2015 fiscal year. Virginia Correctional Enterprises will transition to CARDINAL in February 2016 and; therefore, the audit period was the fiscal year ending June 30, 2014.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### **Properly Report Accounts Payable**

**Type of Finding:** Internal Control and Compliance

The Department of Corrections' (Corrections) fiscal staff miscoded three expense vouchers resulting in an overstatement of year-end accounts payable. Additionally, Corrections staff did not detect the miscoding during multiple levels of review. State agencies code each voucher at year-end with a payable or non-payable designation, in accordance with Department of Accounts year-end procedures, to match expenses to the period incurred. As a result of these miscoding errors, Corrections overstated account payable by \$9.8 million at the end of fiscal year 2014.

Since the time of the error, Corrections has transitioned to CARDINAL, the new statewide financial reporting system. The process for accumulating year end payable information in CARDINAL will be automatic based on dates associated with each transaction, and will not require the manual payable coding designation. Nonetheless, we recommend Corrections' staff be diligent in their review of expense vouchers to ensure information entered into CARDINAL is accurate and correct.

### **Improve Database Security**

**Type of Finding:** Internal Control and Compliance

Corrections does not use some required controls to protect the database that supports a mission critical system within the information technology (IT) environment. This database contains sensitive operational and offender management data including health care and personally identifiable information (PII). We have communicated this information in detail to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls.

The Commonwealth's Information Security Standard, SEC 501-08 (Security Standard), requires agencies to use specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information.

Corrections should dedicate the necessary resources to implement the controls and recommendations discussed in the communication marked FOIAE in accordance with the Security Standard.

### **Ensure Oversight of Third-Party Providers**

**Type of Finding:** Internal Control and Compliance

Corrections does not have a process for ensuring third-party providers are complying with the Security Standard. The Security Standard considers third-party providers to be organizations that perform outsourced business tasks or functions on behalf of the Commonwealth. Corrections outsourced an inventory reporting and management system to a third party vendor; however, they

did not have a process in place to ensure the vendor was meeting the requirements outlined in the Security Standard. Corrections' inventory is material to the Commonwealth's financial statements.

Section 1.1 of the Security Standard recognizes that agencies may procure IT equipment, systems, and services from third parties. In these situations, agencies are required to enforce the requirements in the Security Standard through documented agreements with third-party providers and oversight of the services performed. Corrections did not maintain sufficient oversight to confirm the provider was complying with the Security Standard requirements. One commonly used practice for providing oversight is to request and review a Service Organization Control (SOC) report. Corrections did not request a SOC report for the provider, nor did they implement other internal controls to confirm the provider's compliance with the Security Standard.

Corrections should ensure they have a process for identifying third party service providers and providing appropriate oversight. This is necessary to ensure compliance with Security Standard requirements as well as to provide assurance that controls are functioning over significant operations that are outsourced. We initially communicated this recommendation to Corrections in Fall 2014 upon completion of our work over Corrections' inventory. Since that time, Corrections implemented a revision to their inventory policies and procedures to address this issue. We acknowledge this action and further recommend that Corrections take additional steps to ensure policies and procedures exist to identify all service organizations, determine if a SOC report is required, and assign responsibility to an appropriate individual to ensure receipt of the most current report.

## DEPARTMENT OF CORECTIONS

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 the quality of life in the Commonwealth by improving public safety. They accomplish this through reintegration of sentenced men and women in their custody and care by providing supervision and control, effective programs and re-entry services in safe environments, which foster positive change and growth consistent with research-based evidence, fiscal responsibility and constitutional standards. Corrections also coordinates parole activities with the Virginia Parole Board (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. Table 1 compares selected operating statistics for the department for the past three fiscal years.

**Annual Cost per Inmate and Total Operating Budget**

Table 1

	2012	2013	2014
Average annual cost per inmate	\$25,498	\$27,112	\$27,462
Total operating budget (in millions)	983	1,031	1,053

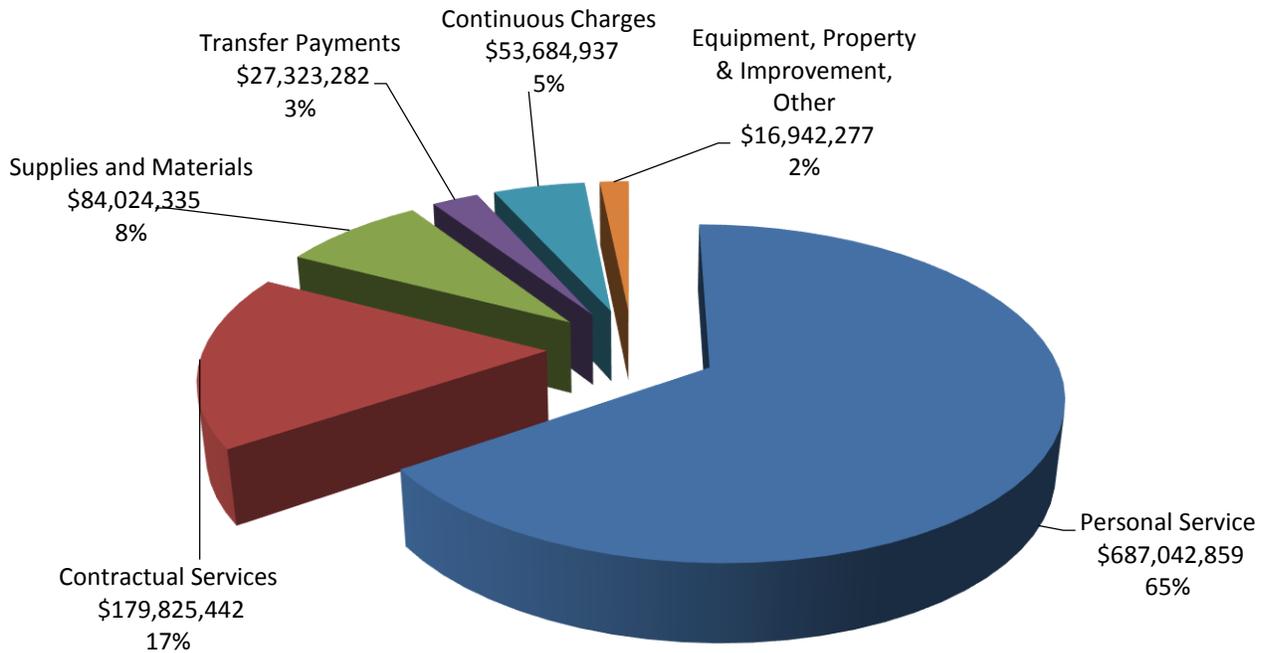
Source: Corrections' 2014 Management Information Summary Report and Commonwealth Accounting and Reporting System (CARS)

Corrections' largest expense item is personal services, which includes payroll and fringe benefit costs for the agency's employees. In fiscal year 2014, personal service expenses comprised 65 percent of total agency expenses as shown in Chart 1. Corrections' authorized employment level for fiscal year 2014 was 12,726, which was a slight increase from the agency's fiscal year 2013 level. This increase represents the net positions gained from a number of different changes including the opening of the River North Correctional Center in October 2013, the merger of the Department of Correctional Education (Adult) into Corrections, and the closing of Mecklenburg Correctional Center.

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. In addition, Corrections' contractual services expenses also include capital outlay and maintenance reserve expenses. In fiscal year 2014, Corrections spent approximately \$20.2 million for capital outlay and \$5.2 million for maintenance reserve expenses. Chart 1 shows total operating expenses by type for fiscal year 2014.

## Operating Expenses by Type

Chart 1



Source: 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. During fiscal year 2014, Corrections continued to fund increases in utility rates (coal, electricity, oil, steam, etc.), gasoline rates, information technology expenses, and Parole and Probation office leases with funds initially budgeted for employee-related expenses. Table 2 summarizes Corrections' budget and actual operating activity for the year.

## Budget and Actual Expenses by Program for Fiscal Year 2014

Table 2

	Original Budget	Final Budget	Actual Expenses
Operation of secure correctional centers	\$ 836,971,103	\$ 808,881,513	\$ 808,377,886
Supervision of offenders and re-entry services	83,326,913	81,759,654	81,395,033
Administrative and support services	94,283,106	116,262,053	112,954,706
Instruction	25,790,251	27,881,441	27,869,378
Operation of state residential community correctional facilities	17,140,956	18,373,221	18,246,129
<b>Total</b>	<b>\$1,057,512,329</b>	<b>\$1,053,157,882</b>	<b>\$1,048,843,132</b>

Source: Chapter 806 Appropriation Act (2013), Chapter 1 Appropriation Act (2014 Special Session I) and CARS

During fiscal year 2014, 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 large increases between original and final budget across programs are primarily related to the salary increase state employees received in July of 2013.

### **Virginia Parole Board**

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. Table 3 shows budget and activity for the Parole Board for the year.

## Budget and Actual Expense Analysis by Program for Fiscal Year 2014

Table 3

	Original Budget	Final Budget	Actual Expenses
Probation and parole determination	\$1,354,191	\$1,558,179	\$1,374,961

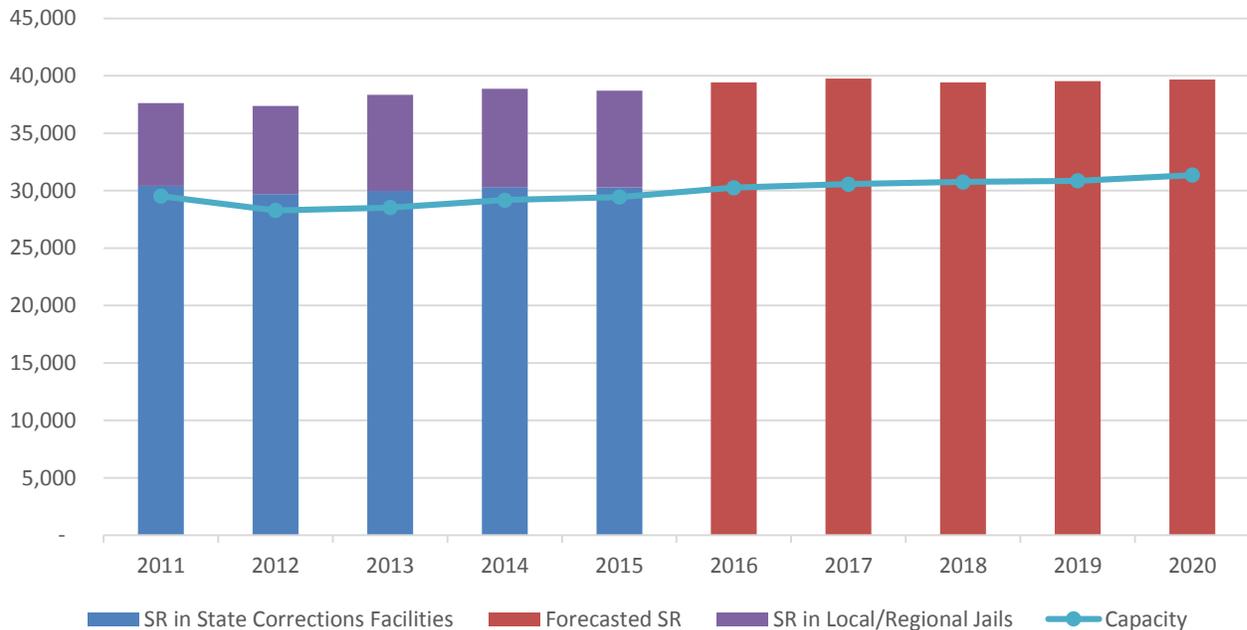
Source: Original Budget from Chapter 806 Appropriation Act (2013) and CARS

### **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 housed in local jails. Corrections uses the Secretary's forecast when estimating their future inmate populations that need to be housed in Corrections' facilities. Chart 2 shows the actual and projected State responsible (SR) population and the capacity analysis through fiscal year 2020.

## State Responsible Inmate Population and Prison Capacity Analysis As of April 2015

Chart 2



Sources: *Inmate Population Reports, most recent CORIS and LIDS data, January 2015 DOC Master Plan 2015-2020*

Chart 2 does not include out-of-state inmates because they are not considered state responsible inmates. 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 and Closing**

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.”

Corrections closed Powhatan Correctional Center in Powhatan County in October 2014. The facility was closed due to the age of the property and to address statewide budget reductions. Inmates housed at this facility were transferred to other correctional facilities. Corrections retained approximately 75 positions to support ongoing operations remaining at the location. These individuals oversee operations at Deep Meadow Complex, the Reception Center and Medical Unit, as well as Deep Meadow Work Center. Additionally, the Powhatan site still maintains the Powhatan Jail and functions such as a tag shop, dairy operations, and the Corrections Construction Unit. The

vast majority of the remaining Powhatan Correctional Center employees were able to be assigned to other positions within the department.

## 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 decreased by more than \$4.5 million in the 2014 fiscal year due to one-time orders in the previous year and continuing state agency budget reductions. In 2013, there were substantial furniture and library shelving orders stemming from River North Correctional Center, higher education institutions, and Western State Hospital. The decrease in sales, along with the transfer to Corrections, resulted in a net loss of approximately \$1.7 million for the 2014 fiscal year as shown in Table 4.

### Summary of VCE Financial Activity for Fiscal Years 2013 and 2014

Table 4

	Fiscal Year 2014	Fiscal Year 2013
Charges for sales and services	\$48,991,574	\$53,601,429
Cost of goods sold:		
Raw materials consumed	20,697,876	25,042,236
Inmate compensation	1,282,742	1,224,337
<b>Total cost of goods sold</b>	<b>21,980,618</b>	<b>26,266,573</b>
Manufacturing overhead	15,849,475	13,835,890
Administrative and warehouse expenses	12,005,740	12,648,597
<b>Total cost of goods, overhead, and operating</b>	<b>49,835,833</b>	<b>52,751,060</b>
<b>Operating income (loss)</b>	<b>(844,259)</b>	<b>850,369</b>
Transfers to Corrections	(1,000,000)	(167,524)
Other income	146,998	151,804
<b>Total non-operating revenues/(expenses)</b>	<b>(853,002)</b>	<b>(15,720)</b>
<b>Net income/(loss)</b>	<b>(1,697,261)</b>	<b>834,649</b>
<b>Net Position Beginning</b>	<b>30,686,478</b>	<b>29,851,830</b>
<b>Net Position Ending</b>	<b>\$28,989,217</b>	<b>\$30,686,479</b>

Source: VCE's internal accounting system, SyteLine



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

June 15, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
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, 2014. For the Department of Corrections and Virginia Parole Board, we have also audited the first quarter of the 2015 fiscal year. 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, 2014.

## **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.

- Contractual services expenses
- Expenses, including payroll
- Small purchase charge card
- Inmate trust funds
- Appropriations
- Inventory
- Commissary funds
- Cash receipting
- Capital assets
- 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, 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, with the exception of accounts payable information, 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 record on the accrual basis of accounting. All other entities within the Department record its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System, the Department's Annual Management Information Summary Reports, 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, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

### **Exit Conference and Report Distribution**

We discussed this report with management on July 14, 2015. 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

LCW/clj



# COMMONWEALTH of VIRGINIA

*Department of Corrections*

HAROLD W. CLARKE  
DIRECTOR

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

July 16, 2015

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

Dear Ms. Mavredes:

The Department of Corrections has reviewed the Auditor of Public Accounts (APA) report pertaining to the Department, the Virginia Parole Board as well as Virginia Correctional Enterprises. We understand the findings related to "Properly Reporting Accounts Payable" and "Improve Database Security". However, the Department has expressed concerns with your staff related to the finding "Ensure Oversight of Third-Party Providers" as current regulations do not provide specific instructions or criteria needed in determining how or when to ensure the required oversight.

The Department of Corrections will provide viable responses to the three findings accompanied by a plan to appropriately address 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 if you have 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

Scott Richeson, Re-entry and Programs Director

Joseph Walters, Director of Human Resources

Louis Eacho, Chief Fiscal Officer

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