

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Corrections, the Virginia Parole Board, and Virginia Correctional Enterprises, 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;
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- inadequate implementation of corrective action with respect to the following prior audit findings:
 - Improve Controls and Processes Surrounding Fixed Asset Accounting and Control System

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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DEPARTMENT OF CORRECTIONS

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Internal Controls over Procurement of Contractual Services and Contract Administration

The Department of Corrections (Corrections) has a decentralized procurement function. The Procurement and Risk Management Director at the Central Office is only responsible for procurement of contracts within the Headquarters Procurement Unit. Five other units/regions have delegated authority and buyers that can enter into contracts. We reviewed procurement across all of these areas.

- Academy for Staff Development
- Agribusiness
- Corrections Construction Unit
- Corrections Major Institutions (Eastern, Western, Central Regions)
- Headquarters Procurement Unit
- Virginia Correctional Enterprises

We found the following issues across the units reviewed.

- Corrections is not consistently designating contract administrators. Five out of ten contracts tested did not have an assigned contract administrator. In some cases when there was no assigned contract administrator, there was no one monitoring the contract performance. In other cases, someone was monitoring the contract even though no one had formally assigned them the responsibility.

Chapter 10 in the Agency Procurement and Surplus Property Manual (APSPM) states that all continuous or term contracts shall have an assigned administrator. Proper designation helps to ensure the proper administration of contracts and that Contract Administrators understand their duties and responsibilities. Without a contract administrator, the risk of improper payments, overpayments, and deficient vendor performance increases.

- Corrections is not maintaining adequate documentation surrounding contracts and contract administration. Corrections could not provide support for two of ten contracts tested. Corrections should maintain documentation of the procurement and administration of each contract.
- Corrections is not consistently performing a final evaluation of vendor performance. The contract administration should complete the evaluation to aid in future procurement decisions.

Due to the small nature of the operations within the Academy for Staff Development and Agribusiness, we found the following issues involving a lack of separation of duties and oversight.

- The Agribusiness unit solicited a contract (over \$100,000) without obtaining the proper written approval of the agency head or designee to use competitive negotiation as stated in Chapter 7 of the APSPM.
- Agribusiness approved and paid an invoice for over \$23,000 that was not within the scope of the contract.
- The Academy for Staff Development has not properly segregated procurement and purchasing responsibilities. The accountant is performing duties relating to procurement, purchasing, small purchase charge card administration, and storeroom and copy center supervision, increasing the risk of fraud and errors.

A lack of central oversight and consistency between the various units has contributed to the breakdown in internal controls and noncompliance. Corrections should implement and enforce standard Contractual Services and Contract Administration policies and procedures across all units to improve internal control and ensure compliance with the APSPM. Corrections should designate an individual to provide central oversight and enforcement of contract management and procurement that covers all units and regions within Corrections. Strong internal controls aid in deterring fraud and reducing errors. Following these internal controls should also ensure Corrections' compliance with procurement regulations.

Improve Controls and Processes Surrounding Fixed Asset Accounting and Control System

Corrections had multiple instances where they did not record new assets properly or remove old assets when disposed.

- Corrections did not record 19 of 24 capital assets purchased in FAACS. Seventeen of these assets were part of a large equipment order for cafeteria equipment, one asset was the purchase and installation of a mobile file system, and the remaining asset was the purchase and installation of fencing at Deerfield Correctional Center. Corrections failed to record the installation along with the actual acquisition cost of the mobile file system in FAACS. Corrections should include all appropriate installation costs when capitalizing assets within FAACS.
- Corrections did not record two of 24 capital asset purchases in FAACS until eight months after their original acquisition dates and recorded the acquisition date improperly. Central office procured these two assets prior to assignment to facilities. However, the facilities recorded these assets in FAACS with the receipt date rather than the purchase date as the original acquisition date.
- Corrections did not have support for one of eight disposed capital assets. This asset was a printer that was part of a bulk surplus collection; however, no supporting documentation was available to determine the final disposition of the asset.

Several years ago as part of budget reductions, Corrections dissolved the Controller's office, which had oversight responsibility for capital assets. The Financial Management and Reporting Unit, headed by the Chief Financial Officer, assumed the controller's functions. This realignment moved the responsibility for FAACS oversight to the Budget Office. However, the Budget Office has not been able to devote the level of resources required to fully meet this responsibility, resulting in the errors noted above. Management realized that the current staffing levels of the Budget Office are insufficient to perform the budgeting and capital asset responsibilities. At the time of this audit, Management created and advertised a position to oversee capital asset accounting and provide coordination of capital assets between the central office and the facilities.

In creating this position, Corrections should ensure that the individual has the authority, not just the responsibility, to provide direction and oversight over all capital assets at the central office and the facilities. Corrections should use this position to strengthen controls surrounding the entry and removal of items in FAACS. Finally, Corrections should update its Fixed Asset Policy to consider the capitalization of computer software.

AGENCY HIGHLIGHTS

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. 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 97 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.

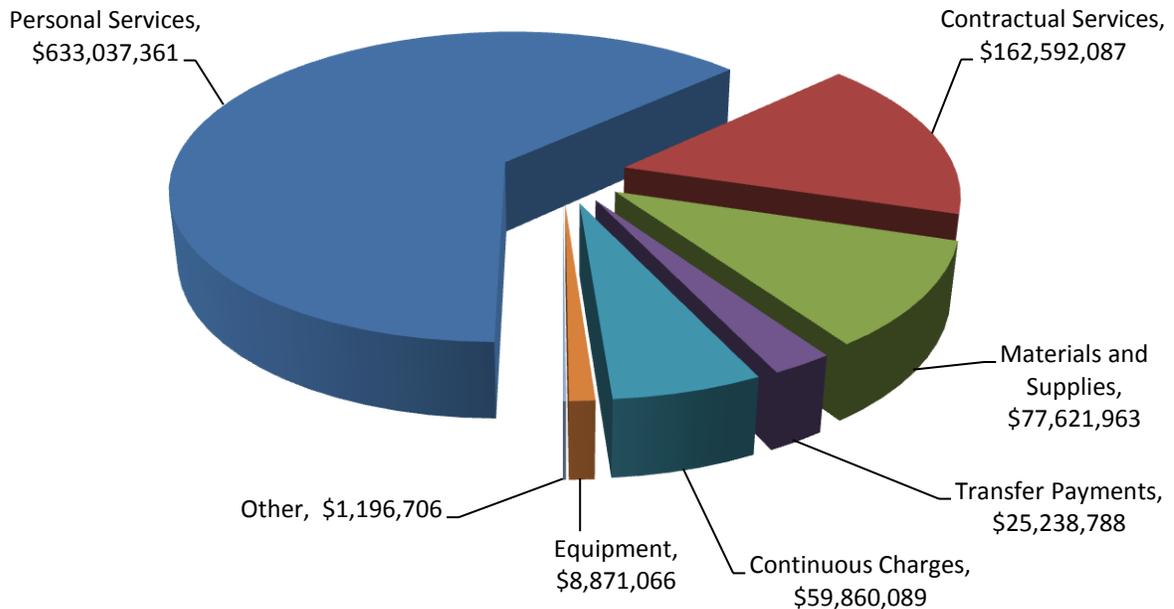
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Average annual cost per inmate	\$23,123	\$22,830	\$24,332	\$24,665	\$24,024	\$24,380
Total operating budget (in millions)	<u>\$ 874</u>	<u>\$ 895</u>	<u>\$ 1,001</u>	<u>\$ 1,012</u>	<u>\$ 939</u>	<u>\$ 971</u>

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 2011, personal service expenses comprised 63 percent of total agency expenses. Corrections’ authorized employment level for fiscal year 2011 was 12,375, which was a slight decrease from the agency’s fiscal year 2010 level. This reduction is largely the result of an administrative adjustment to remove unfunded authorized positions. Corrections’ average employment level during fiscal year 2011 decreased to 11,540, which mainly resulted from the closure of James River 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. The following chart shows total operating expenses by type for fiscal year 2011.

Operating Expense by Type



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

In addition to the expenses previously discussed above, Corrections' contractual services expenses also include capital outlay and maintenance reserve expenses. In fiscal year 2011, Corrections spent approximately \$25.6 million for capital outlay and \$1.4 million for maintenance reserve expenses. The following lists some of the largest capital outlay projects.

- \$9.2 million for construction of the Mount Rogers medium security correctional facility
- \$4.4 million for roof replacements at multiple institutions
- \$3.1 million to upgrade the Wastewater Treatment Plant at Haynesville Correctional Center
- \$1.8 million to build out and upgrade water system at Chesterfield Women's Diversion Center
- \$1.7 million to Replace Door Controls Panels at Greensville Correctional Center

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. This practice results in annual savings to the agency when positions are unfilled. Corrections uses these savings for other operating expenses when they do not have full funding. Although Corrections' authorized position level has decreased as a result of recent budget reductions, the agency continues to have a vacancy rate that produces sufficient funds to pay for these unfunded items. During fiscal year 2011, Corrections continued to fund utility rate

increases, gasoline rate increases, and leases with funds initially budgeted for employee-related expenses. Corrections funds these expenses annually with vacancy savings.

The following table summarizes Corrections’ budget and actual operating activity by program for fiscal year 2011.

Budget and Actual Expense Analysis by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Operation of secure correctional facilities	\$ 827,891,107	\$ 837,441,125	\$ 836,871,941
Supervision of offenders and re-entry services	81,923,593	77,754,652	76,966,181
Administrative and support services	80,723,262	92,928,674	90,886,466
Operation of state residential community correctional facilities	<u>17,140,956</u>	<u>18,023,486</u>	<u>16,783,486</u>
Total	<u>\$1,007,678,918</u>	<u>\$1,026,147,937</u>	<u>\$1,021,508,074</u>

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

Information on each of Corrections’ program areas and the Parole Board is 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 Program also includes Correctional Enterprises, which we discuss in the “Virginia Correctional Enterprises” section of this report.

During fiscal year 2011, this program’s final budget increased by approximately \$9.5 million from the original budget. This increase resulted mainly from additional administrative appropriations for Virginia Correctional Enterprises to allow them to spend revenue from the sale of manufactured goods to fund its ongoing operation.

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, Community Residential Programs, and Administrative Services.

During fiscal year 2011, this program’s final budget decreased by approximately \$4.2 million from the original budget. This reduction was a result of transfers from this program to Operation of

State Residential Community Correction Facilities and Operation of Secure Correctional Facilities, to align appropriations with projected year-end expenses.

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 2011, this program’s final budget increased by approximately \$12.2 million over the original budget. Approximately \$7.4 million of this increase was an appropriation transfer to fund bonuses, benefit changes, and other amounts as required by Items 469 and 473 of Acts of the Assembly Chapter 874. Approximately \$1.3 million of the increase was a transfer from the Supervision of Offenders and Re-entry Services Program to realign the agency’s appropriations to meet projected expenditures for this program. Additionally, approximately \$1.2 million of the increase was an appropriation for payments in lieu of taxes to localities where correctional facilities are located. A majority of the remaining increase was a transfer from Central Appropriations for information technology impacts from the new Virginia Information Technologies Agency rate structure.

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 2011, this program’s final budget increased by approximately \$1.3 million from the original budget. This increase related to the transfer from Supervision of Offenders and Re-entry Services to align appropriation with projected year-end expenditures.

Virginia Parole Board

Budget and Actual Expense Analysis by Program for Fiscal Year 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Probation and parole determination	\$801,843	\$860,021	\$717,386

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.

Duties within this activity include: case supervision, surveillance, safety and security of staff, 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, maximization of technology use, 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 2011, there were no significant changes between the original and final budgets for this program.

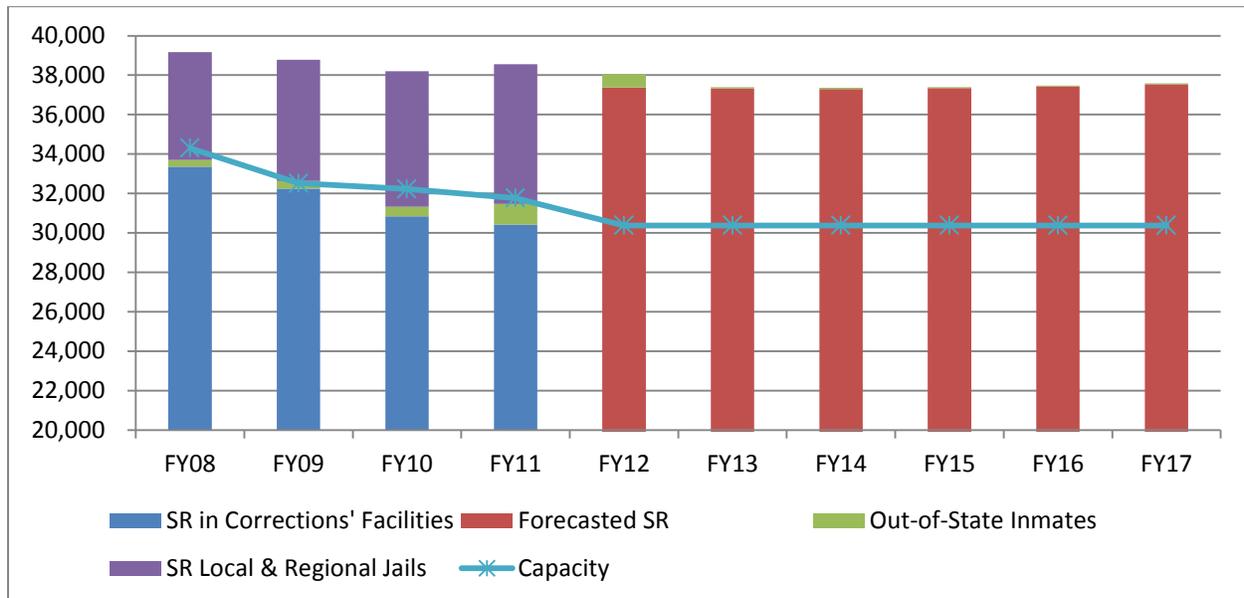
Inmate Population Forecasts and Capacity

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, and State Police, Virginia Parole Board, Compensation Board, Supreme Court, Senate Finance Committee, House Appropriations Committee, and the Virginia Sheriff's Association work along with researchers, methodologists and analysts to prepare the offender forecast.

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 2017.

State Responsible Inmate Population and Prison Capacity Analysis

As of November 2011



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 continues to use the double-bunking of inmates and temporary beds, as well as backing up State responsible inmates in local and regional jails, to maximize their capacity. Corrections has a long-term goal to discontinue the use of temporary beds but must use these beds in order to relieve the inmate backlog in local and regional jails, referred to as out-of-compliance inmates. Inmates classified as out-of-compliance have remained in local or regional jails past the 60-day period that Corrections has to retrieve the inmate from the jail.

Corrections calculates the number of out-of-compliance inmates weekly, and as of April 3, 2012 there were approximately 5,378 out-of-compliance State responsible inmates in local and regional jails, an increase of approximately 1,500 inmates since April 2011. 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

In fiscal year 2011, Corrections housed inmates from Hawaii, the Virgin Islands, and Pennsylvania, which generated revenue in excess of \$23.8 million. However, on September 27, 2011, Corrections received notice of termination to return all Pennsylvania inmates, which made up 99 percent of the out of state inmates. The last of the 1,003 Pennsylvania inmates returned to Pennsylvania on March 20, 2012. Corrections will continue to house approximate 56 inmates from Hawaii and the Virginia Islands and also continue to solicit other out of state inmates. However, there are no negotiations with any entities at this time. Because of the loss of these inmates and the related revenue, Corrections had to close Mecklenburg Correctional Center in fiscal year 2012.

Prison Closings

Corrections has closed or mothballed 11 correctional facilities since November 2008. Corrections has mothballed eight of these facilities to ensure they are properly maintained and can be reopened or repurposed as funding becomes available. Mothball costs mainly include water, gas, oil, and electrical utility services, along with a minimal staff to complete maintenance and ensure overall security of the property. The list of mothballed facilities includes:

- Brunswick Correctional Center
- Botetourt Correctional Center
- Pulaski Correctional Center
- Dinwiddie Field Unit
- Tazewell Field Unit
- White Post Detention Center
- James River Correctional Center
- Mecklenburg Correctional Center

The remaining three closed facilities, which have been destroyed, transferred or sold, include:

- Southampton Correctional Center
- Richmond Women's Detention Center
- Chatham Diversion Center

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) operates 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.

VIRGINIA CORRECTIONAL ENTERPRISES

AGENCY HIGHLIGHTS

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 March 2012, VCE employed 1,251 inmates housed in State correctional facilities. These inmates work in 26 operations at 13 institutions and three additional locations. VCE also employs approximately 183 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. For fiscal year 2011, state agencies accounted for approximately 51.5 percent of sales; colleges and universities, local governments, and not for profit businesses purchased the remaining 48.5 percent.

Financial Summary

VCE is a self-sufficient operation, paying for all expenses from monies collected for sales of its goods and services. The following table summarizes VCE's budget and actual operating activity for fiscal year 2011.

Budget and Actual Expense Analysis by Program for Fiscal Year 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Operation of secure correctional facilities	\$48,000,000	\$54,000,000	\$53,999,938

VCE sales were higher in fiscal year 2011, from a significant furniture order by the Department of Transportation for \$4.5 million. The following information from VCE's internal accounting system summarizes financial results for fiscal years 2010 and 2011.

<u>Year Ended</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Charges for sales and services	<u>\$54,328,102</u>	<u>\$48,193,356</u>
Cost of goods sold:		
Raw materials consumed	25,738,116	20,610,613
Inmate compensation	<u>1,323,628</u>	<u>1,702,237</u>
Total cost of goods sold	27,061,744	22,312,850
Manufacturing overhead	12,985,328	14,624,184
Administrative and warehouse expenses	<u>11,113,784</u>	<u>10,515,374</u>
Total cost of goods, overhead, and operating expenses	<u>51,160,856</u>	<u>47,452,408</u>
Operating income	3,167,246	740,948
Transfers to the General Fund	(1,722,506)	(2,280,910)
Other income	<u>99,417</u>	<u>(20,846)</u>
Total Non-operating revenues/(expenses)	<u>(1,623,089)</u>	<u>(2,301,756)</u>
Net income	<u>\$1,544,157</u>	<u>\$(1,560,808)</u>

Sales and Inventory Information by Industry

VCE operates 15 industries. Of these industries, the wood industry is the largest in sales volume, accounting for over 30 percent of all sales in fiscal year 2011. Overall, six industries account for the majority of sales, as shown below.

	<u>Revenue</u>
Wood	\$17,511,395
Key Office Systems	10,173,930
Tags	6,691,499
Clothing	6,102,050
Metal	3,939,743
Print	3,845,766
Other	<u>6,063,719</u>
Total	<u>\$54,328,102</u>

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

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 7, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

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

We have audited the financial records and operations of the **Department of Corrections, Virginia Parole Board, and Virginia Correctional Enterprises** (herein collectively identified as the Department) for the year ended June 30, 2011. 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 financial 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, 2011. In support of this objective, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in the Department's accounting records, reviewed the adequacy of Department's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from 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, 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
- Capital outlay
- Commissary funds
- Contract management
- Expenditures, including payroll
- Information system security
- Inmate trust funds
- Inventory
- Revenue and cash receipts
- Small purchase charge card
- Agency owned and leased vehicles

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. 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 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 and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Department has not taken corrective action with respect to one audit finding reported in the prior report. The finding entitled "Improve Controls and Processes Surrounding Fixed Asset Accounting and Control System" is repeated 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 that are not repeated in this letter.

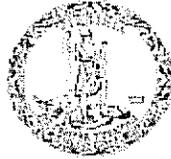
Exit Conference and Report Distribution

We discussed this report with management on May 17, 2012. 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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May 7, 2012

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, 2011.

Dear Mr. Kucharski:

The Department of Corrections has reviewed the Auditor of Public Accounts report pertaining to the Department, the Virginia Parole Board and Virginia Correctional Enterprises for the fiscal year ending June 30, 2011. We understand and concur with the finding related to internal controls over procurement of contractual services/contract administration as well as the finding associated with controls and processes surrounding the Fixed Asset Accounting and Control System (FAACS).

The Department is actively working to resolve the various issues related to the procurement of contractual services/contract administration and will implement policies and procedures across all units to ensure compliance with the Agency Procurement and Surplus Property Manual. Additionally, the Department has employed an individual to oversee capital asset accounting as well as provide coordination of capital assets between the central office and the facilities. This position will ensure FAACS policies and controls are monitored and strengthened when necessary.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "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

Debra Gardner, Chief Deputy Director

A. David Robinson, Chief of Corrections Operations

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

H. Paul Broughton, Director of Human Resources

Louis Eacho, Fiscal Officer

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VIRGINIA CORRECTIONAL ENTERPRISES

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James Sacher, VCE Business Manager