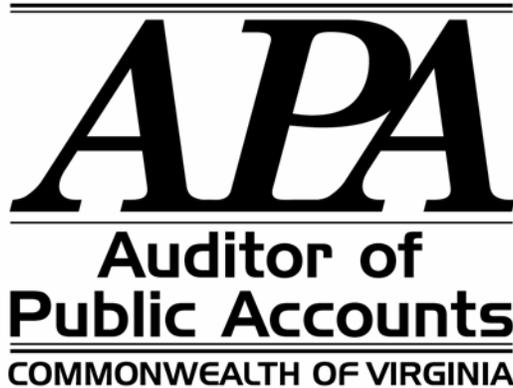


**DEPARTMENT OF JUVENILE JUSTICE**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2006**



## **AUDIT SUMMARY**

Our audit of the Department of Juvenile Justice for the year ended June 30, 2006 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;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
STATUS OF PRIOR AUDIT FINDINGS	1
AUDIT FINDINGS AND RECOMMENDATIONS	2-3
AGENCY INFORMATION:	
Background Information	4
Financial Information	5-6
Juvenile Correctional Centers	7-8
Financial Assistance to Localities	8
Court Service Units	8
AUDIT OBJECTIVES	9
AUDIT SCOPE AND METHODOLOGY	9-10
CONCLUSIONS	10
EXIT CONFERENCE AND REPORT DISTRIBUTION	10
AGENCY RESPONSE	11
AGENCY OFFICIALS	12

## STATUS OF PRIOR AUDIT FINDINGS

### Contract Procurement and Administration

The Department of Juvenile Justice (Juvenile Justice) has improved controls over procurement and contract administration. Juvenile Justice has a central repository for contracts and designates contract administrators in writing. There is a central means for monitoring contracts from a procurement perspective; although absolute responsibility for management of contracts still rests with the assigned contract administrator. The procurement division is responsible for monitoring the duration of contracts to ensure they do not lapse but rather are properly extended, renewed, or re-solicited.

Juvenile Justice has improved the management of the Anthem health services contract by negotiating a new contract. The new contract calls for an annual prepayment of \$220,000, similar to a healthcare insurance premium, as well as the payment of each month's current charges.

The contract administrator performs a quarterly medical records audit to ensure proper billing on a sample basis as well as a recalculation of each month's current charges based on provider billing data supplied by Anthem. This process provides a sufficient level of control over the administration of the health services contract.

#### Remaining issue:

Juvenile Justice did not properly close out the prior year's contract with Anthem. Although the contract administrator performed a reconciliation to determine the net payment owed to Anthem, Juvenile Justice did not meet with Anthem to agree on how to close the previous contract balance. This results in a carry-over deficit balance on the current contract that the contract administrator and accounting manager should work together to resolve.

### Network Security

Juvenile Justice has taken measurable action in response to the Senate Joint Resolution 51 Study. At the conclusion of the study, Juvenile Justice received the grade of an inadequate program. Since that time, Juvenile Justice has conducted a risk assessment for the agency and for the Juvenile Tracking System; completed a business impact analysis; rewrote the Memoranda of Understanding to reflect changes with the Virginia Information Technology Agency, and conducted Systems Security Awareness Training. In addition, Juvenile Justice is also in the process of determining what information is sensitive and required to be in the systems and writing security requirements policies for systems and databases that house sensitive information. Juvenile Justice should continue this process to ensure that they comply with the Commonwealth's new Security Standard, SEC 501, which was effective July 1, 2006, and requires compliance by July 1, 2007.

## AUDIT FINDINGS AND RECOMMENDATIONS

### Improve Separation of Duties over CARS

We found 209 instances where the same individual entered and approved transactions in the Commonwealth Accounting and Reporting System (CARS); therefore, Juvenile Justice does not have proper separation of duties over processing transactions. These transactions totaled over \$2.8 million with over 90 percent of those being vendor payments. Two facilities, the Oak Ridge facility with 117 instances and the Central Infirmary with 57 instances, were responsible for the majority of these transactions. Four other facilities had a limited number of these occurrences due to the small size of the facility and unusual situations.

Juvenile Justice has a limited number of personnel with the ability to enter and approve transactions in CARS. This is necessary, due to the small size of the facilities, to enable them to process transactions during short, unpredictable situations. However, the Oak Ridge facility and the Central Infirmary have used this ability to enter and approve transactions on a regular basis during long-term staff shortages. This increases Juvenile Justice's risk of having improper transactions occur. However, Juvenile Justice does not have procedures in place to address these instances.

Juvenile Justice should establish and implement procedures to ensure proper separation of duties for entering and approving transactions during long-term staff shortages. These procedures may include having someone from central office approve facility transactions or establishing working relationships between facilities so that a facility with more staff can enter or approve transactions for a facility with reduced staff.

### Update Leave Activity in CIPPS Timely

The Culpeper Juvenile correctional facility has not updated all employees' leave used in the Commonwealth's payroll system (CIPPS) since at least October 2006, with some employees' leave as far back as April 2006. Instead, Culpeper tracks leave documentation on paper leave cards kept in employees' files. Due to low staffing levels, Culpeper has not been able to stay current with recording leave used in CIPPS from the paper leave cards. Culpeper should record leave used in CIPPS immediately following the end of each pay period to ensure leave records are accurate.

Failure to post leave to CIPPS could cause Culpeper to pay separated employees improperly for leave balances. Miscalculated leave balances may also result in Juvenile Justice overstating or understating its leave liability at year-end. In addition, with Culpeper maintaining all leave records on manual, paper files, Culpeper may not be able to recover the documentation in case of a fire or other disaster.

To ensure that Juvenile Justice can properly report its leave liability for fiscal year 2007, Culpeper should update all employees' leave in CIPPS before June 30. If Culpeper cannot enter all leave into CIPPS before fiscal year end, Juvenile Justice should ensure that they properly report any necessary adjustments in information submitted to the Department of Accounts for financial reporting purposes. Culpeper should develop a procedure to ensure that they can record leave in CIPPS timely. This procedure may include an automated method of tracking and recording leave.

### Strengthen Controls over Capital Project Procurement and Capitalization

The Capital Outlay office could not provide documentation to support various aspects of the procurement and contract management process for an architect and engineer contract and a construction

contract. The project files were missing items such as the approval to award a contract to a sole bidder, architecture and engineering firm data, SWAM (small, women-owned, and minority-owned businesses) documentation, and bid tabulations. In addition, the Capital Outlay office does not remove projects from Construction in Progress and capitalize them timely. Juvenile Justice has projects that involve multiple subprojects at various juvenile correctional centers. The Capital Outlay office does not capitalize each of these subprojects, as they are complete, but instead waits until they complete all related projects. This process delays the capitalization and recording of depreciation expense. In addition, Juvenile Justice overstated construction in progress at June 30, 2006, by more than \$1.2 million by improperly including ongoing maintenance reserve project expenses.

Juvenile Justice has experienced turnover in several positions within the Capital Outlay office over the past several years. This has resulted in a lack of experience and knowledge over ongoing projects. In addition, the office does not have clear policies and procedures over the capital contract procurement and management process. There is also a lack of communication between the Capital Outlay office and the Accounting department about when to remove items from construction in progress and capitalize them.

Commonwealth construction policies require that Juvenile Justice retain procurement documentation for three years after award, closure, cancellation, or until audited, whichever is longer. Commonwealth accounting policies require Juvenile Justice to remove project expenses from construction in progress and capitalize the resulting asset when the project is substantially complete. Accounting policies also require that Juvenile Justice only include capitalizable expenses in construction in progress.

Juvenile Justice should develop and implement policies and procedures to ensure that capital project files contain all necessary information. The Capital Outlay office should work with the Accounting department to develop and implement a process to communicate when to remove projects from construction in progress and capitalized. The Capital Outlay office should capitalize assets, including those from subprojects, when they are substantially complete. The Capital Outlay office should not wait to capitalize assets from subprojects until all subprojects in a project are complete. Juvenile Justice should ensure that only capital expenses are included in construction in progress each year, specifically excluding maintenance reserve expenses.

## AGENCY INFORMATION

### Background Information

Juvenile Justice provides custody and care for juveniles in the correctional system. A juvenile enters the juvenile system when police, victims, or parents report a delinquent or status offense. A juvenile's first encounter with the system is an intake officer at a court service unit. The intake officer has discretionary power to divert cases from the judicial process. The officer could resolve the case through counseling, referral to other social agencies, or community service. If the decision is to file the charges with the court, the intake officer makes the initial decision about where the child will reside pending judicial proceedings. Many juveniles return to parents or guardians, but others remain in a secure detention facility or a shelter.

If the juvenile is found guilty at the adjudication hearing, there is a social investigation to assist the court in selecting the most appropriate dispositional sanctions and services for the juvenile and the family. The juvenile may receive conditional dispositions such as probation, participation in court service unit programs, referral to local services or facilities, referral to other agencies, or private placement. The juvenile could also receive custodial commitment to state care. State care includes an initial evaluation at the Reception and Diagnostic Center and placement at one of the six correctional facilities.

Juvenile Justice has a central office in Richmond and three regional offices. The central office provides administrative support while the regional offices oversee court service units. Juvenile Justice also assists in funding the following facilities and programs.

- Six juvenile correctional centers (JCC) provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs.
- A Reception and Diagnostic Center provides psychological, educational, social, and medical evaluations for committed youth.
- Thirty-five Juvenile and Domestic Relations Court Service Units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates 32 units and localities operate three.
- Three halfway houses provide 24-hour residential and treatment services for youth returning to their communities.
- Twenty-five secure detention homes provide temporary care of juveniles who require secure custody pending court disposition or placement. Juvenile Justice operates one home and the remaining homes are under local administration.
- One wilderness program provides a highly structured, disciplined, residential program for males.
- Two community placement programs serve committed male offenders through a contractual partnership between Juvenile Justice and two detention centers. The program allows for placement of state committed juveniles in a smaller, community-based setting by providing them with a secure 10-bed pod separate from the detention population.

## Financial Information

Juvenile Justice's main funding source is General Fund appropriations. General Fund appropriations of \$205 million accounted for approximately 95 percent of Juvenile Justice's revenue in fiscal year 2006. Juvenile Justice also receives federal grants and some miscellaneous revenues. The following schedule provides information on the operating budget and expenses for fiscal year 2006.

### Analysis of Budgeted and Actual Expenses by Funding Source:

<u>Funding Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General Fund appropriation	\$189,766,802	\$205,868,707	\$204,975,325
Special Revenue funds	2,398,520	2,417,147	1,047,193
Dedicated funds	25,000	25,000	20,492
Federal funds	<u>6,951,264</u>	<u>7,949,235</u>	<u>4,803,847</u>
Total resources	<u>\$199,141,586</u>	<u>\$216,260,089</u>	<u>\$210,846,857</u>

Source: Commonwealth Accounting and Reporting System

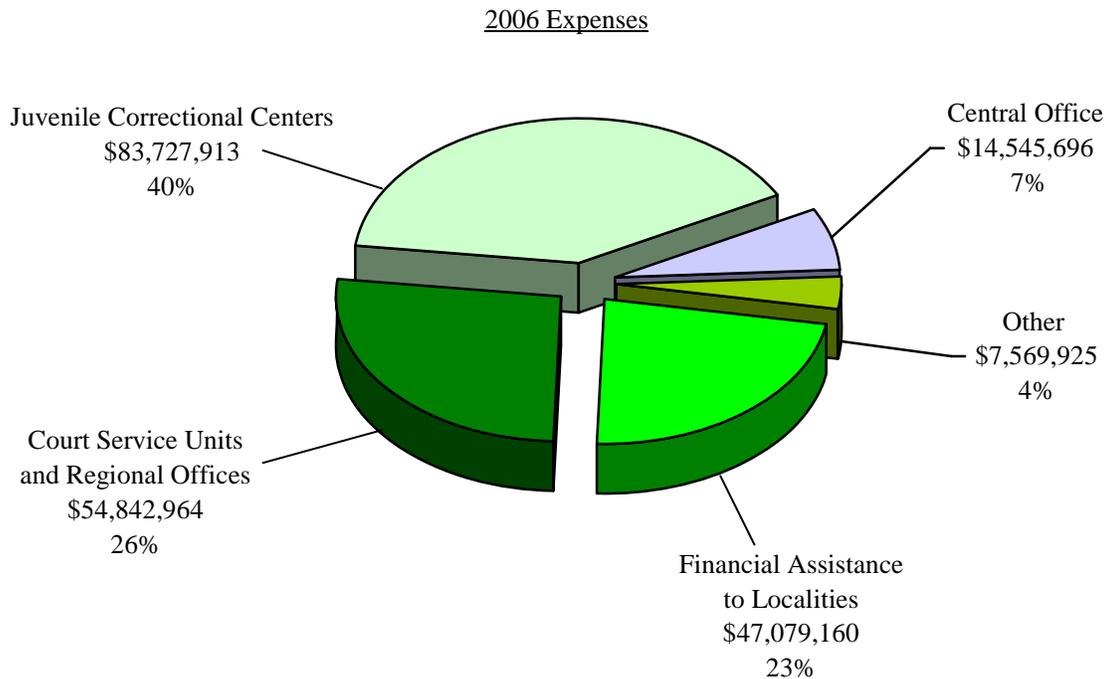
During the fiscal year, the overall budget increased \$17.1 million, reflecting increases in both the general and federal funds. General Fund appropriation increases reflect Central Appropriation transfers for increases in employer health insurance premiums and salary increases approved by the General Assembly. This increase also included funds to cover higher than anticipated health care costs and a change in the pay date approved by the Governor.

Juvenile Justice received additional federal funds for treatment, independent living, and substance abuse programs for juvenile offenders; however, actual federal expenses were \$3.1 million less than expected because of the discontinuation of the Title IV-E transfers from the Department of Social Services resulting from a federal review. The agency also received a one-time appropriation of \$1 million in special revenue funds for the furnishings and equipment of the Culpeper juvenile correctional center to re-open the housing units; however, the Center did not spend these funds in fiscal year 2006. Below is an analysis of budgeted and actual expenses by program, which illustrates the distribution of the budget changes described above by program area. Actual expenses did not vary greatly from the budgeted amount in any one program.

Analysis of Budgeted and Actual Expenses by Program:

Program	Program Expenses			Funding Sources			
	Original Budget	Final Budget	Actual Expenses	General Fund	Special Revenue Fund	Dedicated Fund	Federal Fund
Administrative and Support Services (Program 319)	\$ 13,753,700	\$ 14,749,212	\$ 14,545,696	\$ 14,481,026	\$ 5,249	\$ -	\$ 59,421
Community Based Custody (Program 350)	19,750,799	20,153,718	19,860,012	19,588,289	-	-	271,723
Probation and Re-entry Services (Program 351)	52,604,434	56,650,757	54,842,964	54,442,506	120,739	-	279,719
Confinement and Custody Research, Planning, and Coordination (Program 355)	11,949	2,358,277	1,799,428	173,988	186,529	-	1,438,911
Financial Assistance for Confinement in Local Areas (Program 356)	32,377,273	34,783,488	34,056,020	32,600,261	-	-	1,455,759
Secure Confinement (Program 357)	50,122,969	52,756,488	52,242,551	51,844,344	398,207	-	-
Administrative and Support Services (Program 379)	28,500,462	32,788,149	31,485,362	29,830,087	336,469	20,492	1,298,314
Protective Services (Program 453)	<u>2,020,000</u>	<u>2,020,000</u>	<u>2,014,824</u>	<u>2,014,824</u>	-	-	-
<b>Total Uses</b>	<b><u>\$199,141,586</u></b>	<b><u>\$216,260,089</u></b>	<b><u>\$210,846,857</u></b>	<b><u>\$204,975,325</u></b>	<b><u>\$ 1,047,193</u></b>	<b><u>\$ 20,492</u></b>	<b><u>\$ 4,803,847</u></b>

The following chart shows 2006 expenses by area. A substantial amount of Juvenile Justice's expenses is in one of three areas; juvenile correctional centers, financial assistance to localities for the Virginia Juvenile Community Crime Control Act, and detention and court service units. We discuss these three major areas in more detail below.



### Juvenile Correctional Centers

During fiscal year 2006, Juvenile Justice operated six juvenile correctional centers and a reception and diagnostic center for juveniles committed to state care. These facilities provide programs to address the treatment, disciplinary, medical, educational, and recreational needs of the juveniles. During fiscal year 2006, the total cost to hold one juvenile increased. This increase was due to the change in pay date from fiscal year 2007 to 2006, the increase in staffing levels, and the additional renovations to improve facilities.

The following chart shows overall admission and capacity information for the juvenile correctional centers in fiscal year 2006. Juvenile Justice's current funding level supports beds for 1,039 juveniles. On the following page is similar information for 2006 by individual facility.

	<u>2006</u>
Admissions	868
Capacity	1,039
Average daily population	974
Annual cost per ward	\$100,707

Source: Per Capita Report prepared by the Department of Juvenile Justice

Note: The annual cost per ward includes costs incurred by the Department of Correctional Education for providing education for the juveniles. These education costs were approximately \$19,424 per juvenile in fiscal year 2006.

The following tables include capacity and cost information for each juvenile correctional center. Personnel costs represent a significant portion of each center's operating expenses. Juvenile Justice also operates a behavioral services unit, infirmary, and maintenance department, which benefit all the juvenile correctional centers. Juvenile Justice allocates these costs to the various centers based on each facility's average daily population.

	<u>Beaumont Correctional Center</u>	<u>Bon Air Correctional Center</u>	<u>Culpeper Correctional Center</u>
Programs available*	AM, SO, SA,LS	AM, SO, SA,ISP	AM, SO, SA,ILP
Average daily population	261	264	119
Capacity	322	220	120
Juvenile correctional center expenses:			
Correctional center operating expenses	\$19,212,051	\$13,026,667	\$8,943,371
Behavioral services unit, infirmary, and maintenance	<u>1,924,798</u>	<u>5,019,082</u>	<u>763,717</u>
Total expenses	<u>\$21,136,849</u>	<u>\$18,045,749</u>	<u>\$9,707,088</u>
Per capita expenses:			
Annual cost per juvenile**	\$100,408	\$87,779	\$100,996
Daily cost per juvenile	\$275	\$240	\$276

Source: Commonwealth Accounting and Reporting System  
Fiscal Year 2006 Per Capita Report prepared by the Department of Juvenile Justice

\*Legend: SA – Substance Abuse, AM – Anger Management, SO – Sex Offenders, ISP – Intensive Services Program, ILP – Independent Living Programs, BP – Behavioral Program, LS-Life Skills

\*\*Annual cost per juvenile includes \$19,424 per juvenile for educational costs provided by the Department of Correctional Education.

	<u>Hanover Correctional Center</u> AM, SO, SA, JROTC	<u>Natural Bridge Correctional Center</u> AM, SA	<u>Oak Ridge Correctional Center</u> AM, SA, SO, BP, LS	<u>Reception and Diagnostic Center</u> Juvenile Overall Evaluation
Programs available*				
Average daily population	98	61	40	131
Capacity	100	71	40	166
Juvenile correctional center expenses:				
Correctional center operating expenses	\$9,622,760	\$5,063,959	\$3,540,350	\$8,048,318
Behavioral services unit, infirmary, and maintenance	<u>630,969</u>	<u>429,080</u>	<u>698,074</u>	<u>2,246,088</u>
Total expenses	<u>\$10,253,729</u>	<u>\$5,493,039</u>	<u>\$4,238,424</u>	<u>\$10,294,406</u>
Per capita expenses:				
Annual cost per juvenile**	\$124,054	\$109,474	\$125,385	\$98,007
Daily cost per juvenile	\$340	\$300	\$343	\$268

Source: Commonwealth Accounting and Reporting System  
Fiscal Year 2006 Per Capita Report prepared by the Department of Juvenile Justice

\*Legend: SA – Substance Abuse, AM – Anger Management, SO – Sex Offenders, ISP – Intensive Services Program, ILP – Independent Living Programs, BP – Behavioral Program, LS-Life Skills, JROTC- Junior Reserve Officers Training Corps.

\*\*Annual cost per juvenile includes \$19,424 per juvenile for educational costs provided by the Department of Correctional Education.

#### Financial Assistance to Localities

Juvenile Justice makes payments to localities for the construction, maintenance, and operation of local or regional detention centers, group homes, and numerous other related facilities. These facilities house juveniles who are awaiting sentencing or who require a less secure environment. There are 25 secure detention centers throughout the Commonwealth that can house over 1,450 juveniles. Twelve of these facilities are locally operated, and twelve are run by regional commissions, which are political entities comprised of three or more localities. Culpeper Detention Home is the only state-operated detention facility in the Commonwealth. Juvenile Justice also funds various group homes and day centers, which also house delinquent juveniles. Localities request funds from Juvenile Justice and the Board approves these requests. These payments come almost entirely from general fund appropriations in the form of block grants and Virginia Juvenile Community Crime Control Act funds.

#### Court Service Units

Juvenile Justice has 35 court service units located throughout the state. The court service units coordinate services for juveniles in the court system. They provide a variety of services including intake, domestic relations, investigations, probation, and counseling. During fiscal year 2006, the court service units processed over 216,000 complaints involving juveniles.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

June 26, 2007

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

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Juvenile Justice** for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Juvenile Justice's internal controls, test compliance with applicable laws and regulations, and review corrective action of audit findings from prior year reports.

## Audit Scope and Methodology

Juvenile Justice'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 materiality and control 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
- Contractual services expenditures
- Payroll expenditures
- Travel expenditures
- Financial assistance and incentives payments to the localities
- Capital outlay
- Network security

We performed audit tests to determine whether Juvenile Justice'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 Juvenile Justice's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that Juvenile Justice properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Juvenile Justice records 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.

We noted certain matters involving internal control and its operation 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 results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Juvenile Justice 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 June 26, 2007. 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

DBC/whb



COMMONWEALTH of VIRGINIA  
*Department of Juvenile Justice*

Barry R. Green  
Director

700 Centre, 4th Floor  
7th and Franklin Streets  
P.O. Box 1110  
Richmond, Va 23218-1110  
(804) 371-0700  
Fax: (804) 371-0773  
Voice/TDD (804) 371-0772

July 3, 2007

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

Dear Sir:

We have received the audit report for the year ending June 30, 2006. We concur with the audit findings and recommendations and have already begun implementation. The action plan will be provided as required.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Stephen Pullen".

W. Stephen Pullen  
Deputy Director of Administration and Finance

AGENCY OFFICIALS

DEPARTMENT OF JUVENILE JUSTICE

BOARD MEMBERS

As of June 30, 2006

James S. Turpin  
Chairman

Kim S. Downing  
Vice President

Courtney A. Penn  
Secretary

John S. Newman  
Aida L. Pacheco

Patricia Puritz  
Julia C. Winslett

ADMINISTRATIVE OFFICERS

Barry R. Green, Director

W. Stephen Pullen, Deputy Director of Administration and Finance