



DEPARTMENT OF JUVENILE JUSTICE

REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2015

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Juvenile Justice (Juvenile Justice) for the period July 1, 2012, through June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- certain matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Information Security Program

The Department of Juvenile Justice (Juvenile Justice) has not implemented certain security controls for the agency's information security program and the agency's Juvenile Tracking System (BADGE) as required by the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard) and recommended by industry best practices. We identified and communicated seven weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOAIE) under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

Juvenile Justice is not performing critical information security tasks and has an out of compliance information security program because the agency has informally adopted the current Security Standard without establishing a separate policy and without establishing separate agency procedures detailing how they will meet the Security Standard requirements. By not having a documented and formally approved information security program that aligns with the current Security Standard, the Information Security Officer cannot ensure Juvenile Justice is adequately protecting its information technology systems and implementing all the applicable Security Standard requirements. Additionally, by not having formally approved agency procedures detailing how Juvenile Justice will implement applicable Security Standard requirements, agency employees may be unaware of their specific security responsibilities, which increases the risk of management not enforcing accountability.

Juvenile Justice should develop agency specific procedures to document how they plan to meet all of the applicable Security Standard requirements. Updating and formally approving their information security program to align with the requirements in the Security Standard will help to better ensure the confidentiality, integrity, and availability of mission critical systems and data. Juvenile Justice should dedicate the necessary resources to implement the controls discussed in the communication marked FOAIE in accordance with the Security Standard.

Improve myVRS Navigator Reconciliation and Confirmation Process

Juvenile Justice's Central Office Human Resources Department (Human Resources) does not have adequate controls in place to ensure that retirement information for their employees is accurate. Specifically, Human Resources is not reconciling the employee information in the Personnel Management Information System (PMIS) to the Virginia Retirement System (VRS) myVRS Navigator system that contains essential retirement data for state employees prior to the Snapshot confirmation. VRS policy requires that Human Resources confirm the accuracy of the myVRS Navigator data monthly. Human Resources is not maintaining evidence to show that they have resolved post-confirmation issues found on the monthly Commonwealth Integrated Payroll and Personnel System (CIPPS) reports or the PMIS Canceled Records Reports. Prior to fiscal year 2016, Juvenile Justice did not review one of the five monthly CIPPS reports. In addition, Human Resources is not verifying with the facilities' Human Resource departments that they have reconciled their

payroll records before confirming that *myVRS* Navigator is accurate. Finally, Human Resources has not created policies and procedures to ensure compliance with the VRS requirements.

Commonwealth Accounting Policies and Procedures Manual (CAPP) Topic No. 50410 requires each agency to reconcile VRS contributions monthly. The reconciliation confirmation also asks them to verify that VRS has calculated the employee retirement contributions correctly. Department of Accounts (Accounts) Payroll Bulletin Volume 2013-02 describes the due date for the Snapshot confirmations and review of the PMIS Cancelled Records Report.

Without an efficient reconciliation process, Juvenile Justice may submit improper contributions to VRS based on inaccurate data in *myVRS* Navigator. Insufficient reconciliation over an extended period can also affect assumptions made by VRS actuaries, who rely on data provided by individual agencies and institutions.

Human Resources was unaware of the PMIS to VRS reconciliation requirement, and therefore, did not perform one. In addition, there appears to be a lack of communication between Human Resources and Payroll as to what *myVRS* Navigator responsibilities each department will handle. The lack of policies and procedures outlining responsibilities has greatly contributed to this lack of communication.

Human Resources should obtain a thorough understanding of the reconciliation requirements and work with Payroll to develop and implement policies and procedures for performing reconciliations prior to the confirmation of the Snapshot by the VRS imposed deadline. These policies and procedures should address responsibilities of the departments, verification with the facilities' Human Resource departments that they are performing reconciliations over their employees, and resolution of errors found on the CIPPS reports prior to the next payroll period. Human Resources should complete reconciliations between the VRS Snapshot and the payroll system, identify and correct any discrepancies, and confirm that facilities' Human Resources departments have identified and corrected any discrepancies prior to the VRS Snapshot certification. In addition, they should review all five required CIPPS reports and resolve issues noted on the reports prior to the VRS Snapshot certification. Human Resource should maintain evidence supporting the reconciliations and reviews of the CIPPS reports and the PMIS Canceled Records Reports for audit purposes.

Improve Internal Controls and Processes Surrounding Fixed Asset Accounting and Control System

Juvenile Justice does not consistently record capital asset additions and deletions in the Fixed Asset Accounting and Control System (FAACS) in accordance with Commonwealth requirements. In addition, their draft policies and procedures do not include processes for notifying the Fixed Asset Accountants of additions or deletions. The draft policies and procedures indicate that each facility has a Fixed Asset Accountant in addition to the Central Office Fixed Asset Accountant. However, the facilities are not entering assets in FAACS as required by their policies. They have the Central Office Fixed Asset Accountant enter the assets. Juvenile Justice had multiple instances where they did not record new assets properly or remove old assets when disposed as detailed below.

- Juvenile Justice recorded 44 out of 72, or 61 percent, of the assets acquired in fiscal years 2013 through 2015 after the 30-day period required by the CAPP Manual. They recorded one asset 374 days after acquisition causing it to cross fiscal years and require potential restatements within the Commonwealth's Comprehensive Annual Financial Report (CAFR). Improperly recording asset acquisitions leads to inaccurate depreciation calculations. Juvenile Justice's interpretation is that as long as they record an asset acquisition in FAACS in the fiscal year the asset was acquired then they have met the CAPP Manual requirements.
- Juvenile Justice incorrectly recorded the acquisition date for six out of seven or 86 percent of asset additions reviewed one day to five months after the actual acquisition date resulting in understated asset depreciation. The Central Office Fixed Asset Accountant recorded two of these assets incorrectly due to oversight. In addition, they improperly valued one of the assets due to an oversight resulting in understated asset values.
- Juvenile Justice recorded disposals for two out of six assets without the use of any type of disposal form that would inform the Fixed Asset Accountants that an asset has been disposed resulting in the incorrect recording of the disposal date for one of the assets. The actual disposal date for this asset is either 17 or 31 days after the FAACS disposal date. It could not be determined based on the documentation included on the Department of General Services' sales receipt. Juvenile Justice could not support the disposal date for the second asset, as there was just a note stating a date and that the asset had been cannibalized. The Central Office Fixed Asset Accountant uses what the facilities or the Central Office's Surplus Property Unit provides to her to dispose of assets. This may include Department of General Services' sales receipts that can be received a month or more after the asset is actually disposed and handwritten notes from phone conversations that may not contain all of the detail needed to dispose of the asset properly. Improperly recording asset disposals leads to inaccurate asset valuations within FAACS and the CAFR.
- Juvenile Justice incorrectly recorded the disposal date for three out of six assets. Two of these assets are mentioned above. The third asset was recorded in FAACS 49 days after the date of actual disposal.
- Juvenile Justice never capitalized expenses for two walk-in freezers that facilities constructed in fiscal year 2012 and 2014 in FAACS. These freezers were valued at approximately \$329,899 and \$48,776 respectively. In addition, they neglected to dispose of two walk-in freezers that were replaced by the newly constructed ones. The freezer replaced in fiscal year 2012 was not removed from FAACS due to oversight and turnover in positions, and had an acquisition value of \$10,000. The

freezer replaced in fiscal year 2014 had an acquisition value of \$24,983. This asset was not properly disposed of due to lack of communication between the facility, the small purchase charge card holder, and the Central Office Fixed Asset Accountant.

CAPP Manual Topic No. 30305 provides clear policies and procedures for the proper identification of capital asset expenses, entry in FAACS, and eventual disposal classification within FAACS. Juvenile Justice's entry of information in FAACS correctly is critical to ensure capital assets are correctly reported within the CAFR.

Juvenile Justice should ensure that all individuals entering acquisitions in FAACS have a thorough understanding of the CAPP Manual policies and procedures. They should ensure that the agency policies and procedures are finalized and outline in detail the responsibilities of the facility Fixed Asset Accountants versus the responsibilities of the Central Office Fixed Asset Accountant. In addition, they should ensure that they enter acquisitions in FAACS within 30 days of receipt and acceptance as required by CAPP Manual policies and procedures. Juvenile Justice's Fixed Asset Accountant, Surplus Property Unit, and facilities should work together to determine the best way to inform the Fixed Asset Accountant of additions and deletions that need to be added to FAACS. Juvenile Justice should consider using forms provided by the Department of Accounts to maintain proper documentation for capital asset disposals. Using these forms will allow the Fixed Asset Accountant to enter the correct disposal information in FAACS and reduce the risk that misappropriations of capital assets or improper revenue recognition will occur.

Improve Controls over Removal of Systems Access for Terminated Employees

Juvenile Justice does not have adequate controls surrounding the removal of systems access for terminated employees in the Commonwealth Accounting and Reporting System (CARS) and Cardinal. The system support groups for CARS and Cardinal removed access to CARS from 33 days to over three months after separation for three out of eight employees who separated from the agency during fiscal years 2013 through 2015. In addition, the system support group for Cardinal did not remove access for the only separated employee with Cardinal access until six months after separation.

Juvenile Justice's practice is to remove systems access within one month to be considered timely; however, this practice is not documented in the agency's policies and is not always followed. Additionally, the Organizational Unit Head did not always notify the Account Facilitator within 24 hours regarding personnel who have separated, retired, or have been terminated from their unit, contributing to untimely removal of systems access. As a result, in fiscal year 2014, Human Resources began notifying the Account Facilitator about all personnel changes. When user accounts are not removed timely, Juvenile Justice risks compromising the confidentiality, integrity, and availability of data resulting from unauthorized systems access.

The Security Standard AC-2- COV, 2.e-h requires the prompt removal of system access for terminated or transferred employees. In addition, Juvenile Justice's Administrative Procedures, Vol.

I-1 3-1 Computer Account Access, state that the Organizational Unit Head should notify the Account Facilitator in writing within 24 hours whenever Juvenile Justice personnel separate, retire, or terminate from their unit. Once received, the Account Facilitator shall verify and review the form for accuracy and notify the appropriate support groups within 5 days of receipt of a completed form.

Management should formalize the practice of removing access to information systems for terminated employees within 30 days of termination by including this in its Administrative Procedures. Management should also update the Administrative Procedures to reflect the change in procedure where Human Resources notifies the Account Facilitator of personnel changes instead of the individual Organizational Unit Head. In addition, management should ensure that Human Resources, the Account Facilitator, and the CARS and Cardinal system support groups follow policies and procedures, removing systems access timely.

AGENCY HIGHLIGHTS

Background Information

The Department of Juvenile Justice (Juvenile Justice) provides custody and care for juveniles in the correctional system. Juvenile Justice has a central office in Richmond that provides administrative support throughout the Commonwealth. Juvenile Justice assists in funding the following facilities and programs.

- Two juvenile correctional centers provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs.
- Thirty-five court service units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates 32 units and localities operate three.
- Twenty-four secure detention homes provide temporary care of juveniles requiring secure custody pending court disposition or placement. Twelve of these facilities are locally operated and 12 are run by a regional commission, which are political entities comprised of three or more localities.

Agency Consolidation

In fiscal year 2013, the General Assembly consolidated the Department of Correctional Education (Correctional Education) with Juvenile Justice and the Department of Corrections. Correctional Education's mission included providing quality educational programs that enable incarcerated youth to become responsible, productive, tax-paying members of their communities.

Approximately ten Correctional Education Central Office staff and all juvenile education teachers transferred to Juvenile Justice on July 1, 2012. As a result of this consolidation, expenses increased by approximately \$22 million in fiscal year 2013.

Facility and Program Closures

Due to decreases in juvenile offender population, the following facilities and programs were closed or consolidated into current facilities and programs during fiscal years 2014 and 2015.

- Three juvenile correctional centers that provided 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs closed. Juvenile Justice transferred Culpeper Juvenile Correctional Center to the Department of Corrections for use as a women's prison. Hanover Juvenile Correctional Center has been repurposed as the Virginia Public Safety

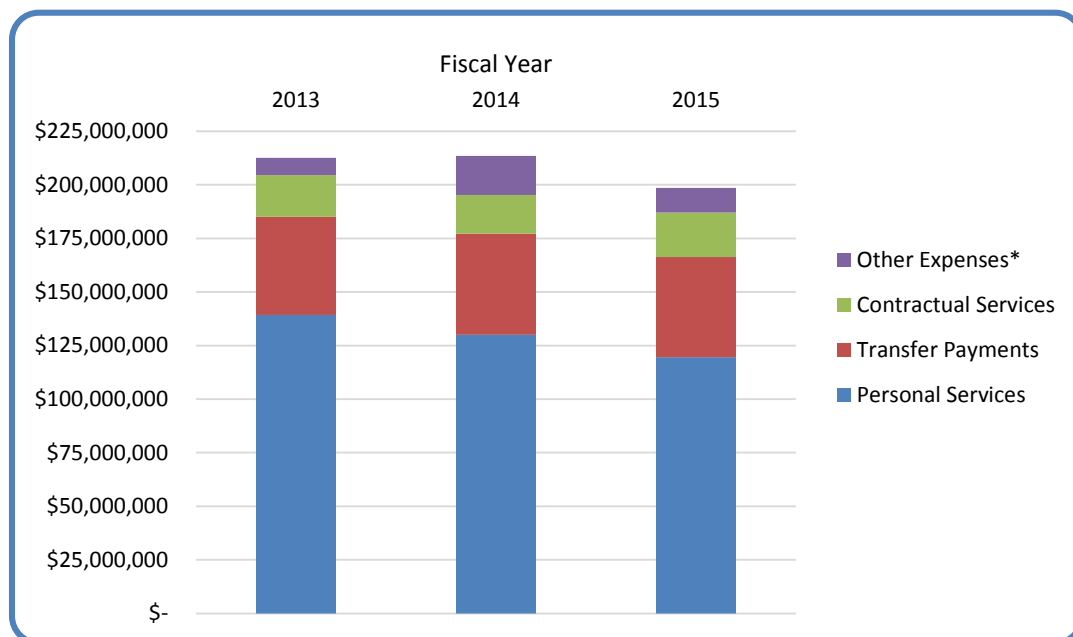
Training Center. As of the date of this report, Juvenile Justice has not repurposed the remaining correctional center.

- A Reception and Diagnostic Center that served as the central intake facility for all juveniles committed to Juvenile Justice closed.
- Two halfway houses that provided transitional living arrangements and skill development to juveniles returning to their communities closed.

Financial Information

Juvenile Justice spent approximately \$213 million on operating expenses in each of fiscal years 2013 and 2014. Operating expenses decreased slightly in fiscal year 2015 to approximately \$198 million. Personal services, including fringe benefits, represents the majority of those expenses, totaling over \$139 million in fiscal year 2013, over \$130 million in fiscal year 2014, and over \$119 million in fiscal year 2015. The remaining expenses are normal operating expenses for detention centers, such as transfer payments to localities for programs and operations, utilities, maintenance, insurance, and equipment. As seen in the chart below, the overall decrease in operating expenses is due to the facility and program closures and consolidations previously mentioned in this report.

Operating Expenses



Source: Commonwealth Accounting and Reporting System and Cardinal

* Other Expenses include: Supplies and Materials, Contractual Services, Property and Plant Improvements, and Equipment



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P.O. Box 1295
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May 3, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Juvenile Justice (Juvenile Justice)** for the period July 1, 2012, through June 30, 2015. 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 Cardinal, review the adequacy of Juvenile Justice's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements. Juvenile Justice transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on October 1, 2014.

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, 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.

myVRS Navigator
Operational expenses
Reconciliations
Payroll expenses
Small purchase charge card
Financial assistance and payments to localities
Fixed assets
Information system 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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the 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 and Cardinal. 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 and Cardinal.

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."

Exit Conference and Report Distribution

We discussed this report with management on May 31, 2016. 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

Andrew K. Block, Jr.
Director

Department of Juvenile Justice

June 3, 2016

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

Dear Ms. Mavredes:

The following is the department's response to your audit of financial records and operations of the Department of Juvenile Justice (DJJ) for Fiscal years beginning July 1, 2012 and ending June 30, 2015.

Finding - Improve Information Security Program

Response – DJJ management agrees with the finding and will address the issues identified. DJJ has rewritten and implemented our Policy and Procedures for all Financial Systems and Badge to correct the deficiencies identified during the audit in regard to the Information Security Program. These updates include the development of a security program book which aligns the IT systems with the new version of ITRM SEC501. As part of the new program DJJ has re-established the Change Control Board which will review any applicable changes to the reporting systems. The updated Security program also requires a new yearly executive level Risk Report and a requirement for notifying the agency head of changes and updates to the agency's Risk Assessment and Business Impact Analysis. It also addresses routine monitoring and testing provided by the VITA/NG partnership on systems housed within their data center.

Finding – Improve myVRS Navigator Reconciliation and Confirmation Process

Response - DJJ management agrees with the finding and will address the issues identified. DJJ has rewritten their Policy and Procedures to include the VNAG Reconciliation process. Human Resource staff have been given access to Reportline to obtain the U170-U174 Reports as soon as they become available, in order to meet the Reconciliation deadline and have the Snapshots confirmed by the 10th of each month.

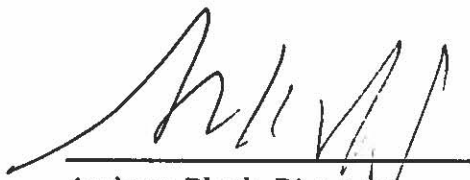
Finding – Improve Internal Controls and Processes Surrounding Fix Assets Account and Control System

Response - DJJ management agrees with the finding and will address the issues identified. DJJ has rewritten the agency's FAACS Procedures. An online FAACS log sheet has been developed and implemented to list Fixed Assets as the Purchase order has been completed and approved. DJJ has also developed a Surplus Disposition form that it will use to help ensure surplus items are documented and removed in a timely manner. Business Managers have been given access which allows them to key entries into the FAACS system which will result in a more timely release by the FAACS Coordinator at Central Office. Business Managers have also been given access to Reportline to review the Potential Fixed Assets Reports to ensure Fixed Assets are recorded in FAACS accurately and in a timely manner. Monthly and Quarterly meetings are now required between Accounting, Procurement, Capital Projects, Budget, Business Offices and IT to insure that all are aware of Capital Assets that will be and have been purchased by the agency.

Finding – Improve Controls over Removal of Systems Access for Terminated Employees

Response - DJJ management agrees with the finding and will address the issues identified. DJJ has updated its policy and procedures to address this issue. The changes include requirements for the timely removal of terminated employees from all systems and establishment of realistic removal requirements and responsibilities. Additionally, a list of terminated employees is now published and distributed to the Information Security Officer each month for follow-up to ensure that every terminated employee is removed from each system.

Sincerely,


Andrew Block, Director
Daryl W. Francis, Deputy Director A&F

DEPARTMENT OF JUVENILE JUSTICE

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