



DEPARTMENT OF CORRECTIONS
INCLUDING
VIRGINIA PAROLE BOARD

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2020

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Corrections (Corrections), including the Virginia Parole Board, for the fiscal year ended June 30, 2020, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system, Corrections' accounting records, and in supplemental information and the leave liability attachment submitted to the Department of Accounts;
- three matters involving internal control and its operation necessary to bring to management's attention;
- one instance of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to prior audit findings identified as resolved in the [Findings Summary](#) in the Appendix.

We did not review management's corrective action on the prior year finding identified as deferred in the [Findings Summary](#). We will follow up on this finding in a future audit.

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INTERNAL CONTROL AND COMPLIANCE RECOMMENDATIONS

Align System Access with the Principle of Least Privilege

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Corrections did not properly restrict the access granted within the Commonwealth's accounting and financial reporting system (System) based on the principle of least privilege. We found 43 employees with access to roles in the System that are not needed to perform their job functions. The Commonwealth's Information Security Standard, SEC 501 (Security Standard), Section 8.1 AC-6, requires that Corrections employ the principle of least privilege when granting access to help reduce the risk of fraud and errors.

These access roles were granted to users when Corrections first transitioned to the System and was using functionality related to these roles. Over time, this functionality was no longer used; however, the access roles were not identified and removed despite Corrections performing an annual security review. To ensure compliance with the Security Standard, Corrections should remove access to any system access roles that are not required to fulfill a user's current job requirements promptly. Further, Corrections should ensure their annual system access reviews identify any users with more access than the minimum to perform their job functions.

Strengthen Controls over Small Purchase Charge Cards

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Corrections did not retain adequate supporting documentation for Small Purchase Charge Card (SPCC) credit limit and transaction limit changes, did not approve SPCC cardholder reconciliations timely, and did not complete SPCC annual certification training timely.

During our review, we found:

- Two out of ten (20%) cardholders did not submit the required change request form and obtain proper approval prior to the credit limit change;
- One out of ten (10%) cardholders did not provide a justified reason for the credit limit change;
- One out of eight (12.5%) monthly SPCC cardholder reconciliations did not receive supervisor approval in a timely manner; and
- One out of three (33%) administrators did not complete the SPCC Annual Certification Training on time.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20355 requires that a supervisor approve all limit increases and a supervisor review and approve, by signing and dating, the reconciled statement before forwarding it to the accounting department. Corrections operating procedure 260.3 requires that changes in spending limits must be submitted through a PCard Change Request and approved by the supervisor. It also requires the supervisor to sign and date both the PCard Transaction Log and the PCard holder Statement before submitting them to Accounts Payable for payment. Finally, it states that each SPCC administrator must take the DOA mandatory annual training no later than April 30th of each year.

Not submitting change requests, obtaining proper approval for limit changes, and reviewing and approving monthly reconciliations increases the risk that unauthorized and unnecessary purchases go undetected. Not completing training in a timely manner increases the risk that SPCC administrators are unaware of the most recent policies and procedure updates. The lack of supporting documentation for credit and transaction limit changes, the lack of proper approvals for the SPCC monthly reconciliations, and not completing required annual training timely is due to insufficient oversight from cardholders and supervisors.

Corrections should ensure cardholders and supervisors are aware and processes are implemented to ensure the necessary requirements to retain supporting documentation for limit changes, obtain proper approvals for limit changes, obtain proper approvals for monthly reconciliations, and complete annual training by the deadline are met.

Ensure Segregation of Duties During Payroll Certifications

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Corrections did not ensure segregation of duties existed during the payroll pre-certification and post-certification processes for all pay periods since April 1, 2020. The CAPP Manual specifies the required elements of the pre-certification and post-certification processes in topics 50810 and 50820, respectively. Pre and post certification audits are to be carried out by a different payroll technician from the one who performs the payroll certification.

Prior to COVID-19, pre- and post-certifications were performed in office with hard copy files. In April 2020, Corrections transitioned to a virtual work environment and did not have procedures in place to ensure the individual completing the pre and post certifications was different than the individual completing the payroll certification. This created a segregation of duties conflict. A lack of segregation of duties causes an increase in the likelihood of inaccurate, unauthorized, or fraudulent payroll transactions going undetected.

Corrections should ensure procedures are developed and implemented so that the pre and post certifications are performed by someone other than the person performing the payroll certification.

AUDIT HIGHLIGHTS

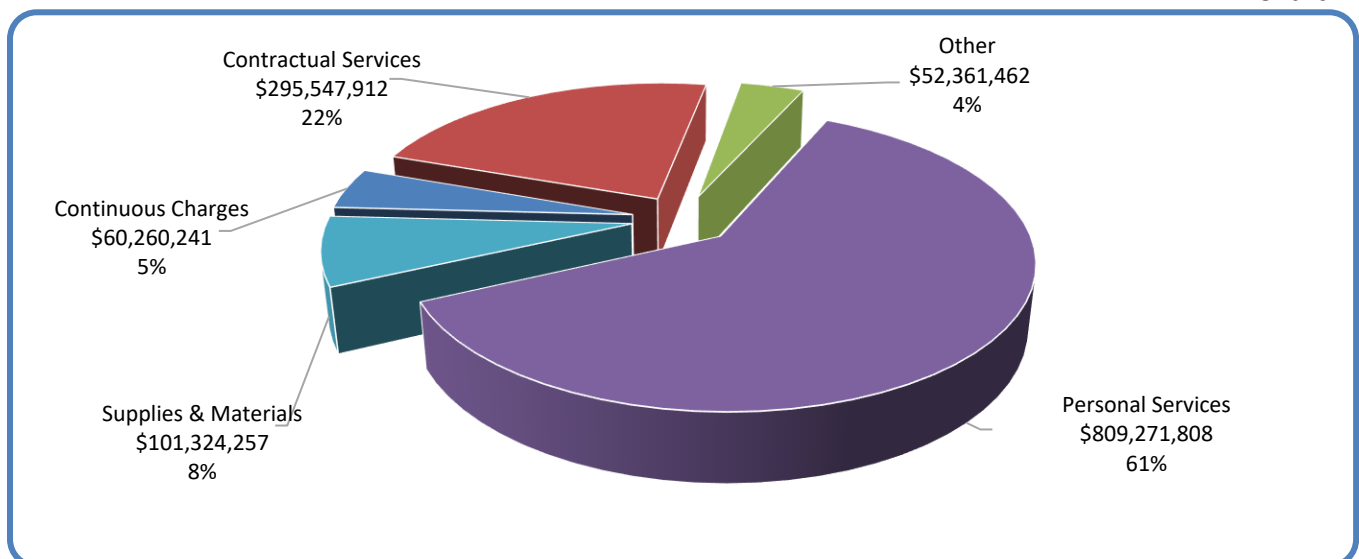
Corrections manages Virginia's correctional facilities for adult offenders and directs the work of all probation and parole officers. Their mission is to enhance the quality of life in the Commonwealth by improving public safety. Corrections operates a central office in Richmond, as well as various correctional institutions and units across the state, including 26 major correctional institutions. These facilities house approximately 30,000 offenders. Corrections also oversees one privately operated institution that houses over 1,500 offenders.

Corrections' payroll and fringe benefit expenses are material to the Commonwealth's financial statements and therefore, were included this cycle in our audit scope. Corrections employs over 12,000 full time employees statewide, with the majority of staff located in major correctional centers. Payroll and fringe benefit expenses (Personal Services) totaled over \$809 million in fiscal year 2020, which accounts for over 60 percent of operating expenses.

This year we also included all other types of expenses made by Corrections. This included, but was not limited to, small purchase charge card charges, fuel card charges, journal entries, travel reimbursements, and vouchers. Including in our voucher work was contractual services, Corrections' second largest expense area. Contractual services totaled over \$295 million in fiscal year 2020, which accounts for over 20 percent of operating expenses. Corrections has several contracts for services at various facilities including food, medical, and prescription drug services. A breakdown of operating expenses by type is shown below.

Expenses by Type – Fiscal Year 2020

Chart 1



Source: Commonwealth's accounting and financial reporting system

Note: Data includes agencies within the scope of the audit including the Virginia Parole Board and excluding Virginia Correctional Enterprises.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 4, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Corrections**, including the Virginia Parole Board, for the year ended June 30, 2020. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Financial Report audit. 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 Correction's financial transactions as reported in the Comprehensive Annual Financial Report (CAFR) for the Commonwealth of Virginia for the year ended June 30, 2020. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting systems; in Corrections' accounting records, and in supplemental information submitted to the Department of Accounts; reviewed the adequacy of Corrections' internal controls; and tested for compliance with applicable laws, regulations, contracts, and grant agreements. We also evaluated the accuracy of Corrections' leave liability attachment reported to the Department of Accounts for inclusion in the CAFR for the year ended June 30, 2020.

We also reviewed corrective action for audit findings from the prior year as follows: "Improve Documentation and Timeliness of Retirement Benefits Systems Reconciliation", "Perform Annual Access Certifications for Information Systems", "Document Payroll Certification Policies and Procedures", "Improve Documentation over Payroll Reconciliations", "Properly Complete the Employee Eligibility Form", and "Comply with 1500 Hour Rule for Wage Employees." We did not review management's corrective action for the prior year finding identified as deferred in the [Findings Summary](#). We will follow up on this finding in a future audit. The Findings Summary contains a listing of prior findings and the status of follow-up on management's corrective action.

Audit Scope and Methodology

Correction's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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 materiality 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.

- Payroll expenses
- Small purchase charge card
- Fuel card
- Expense journal entries
- Travel reimbursements
- Expense vouchers
- Information systems access

We performed audit tests to determine whether Correction'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 and records, and observation of the Correction's operations. We performed analytical procedures and tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Our consideration of internal control over financial reporting was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control entitled, "Align System Access with the Principle of Least Privilege," "Strengthen Controls over Small Purchase Charge Cards," and "Ensure Segregation of Duties During Payroll Certifications," which are described in the section titled "Internal Control and Compliance Recommendations," that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Conclusions

We found that Corrections' properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system, Corrections' accounting records, and in supplemental information and the leave liability attachment submitted to the Department of Accounts.

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 sections entitled "Internal Control and Compliance Recommendations." Corrections has taken adequate corrective action with respect to audit findings identified as resolved in the [Findings Summary](#).

Since the findings noted above include those that have been identified as significant deficiencies, they will be reported as such in the "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards," which is included in the Commonwealth of Virginia's Single Audit Report for the year ended June 30, 2020. The Single Audit Report will be available at www.apa.virginia.gov in February 2020.

Exit Conference and Report Distribution

We discussed this report with management on November 4, 2020. 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

AVC/clj

FINDINGS SUMMARY

Finding	Follow Up Status	Year(s) Issued
Improve Documentation and Timeliness of Retirement Benefits System Reconciliations	Resolved	2018, 2019
Perform Annual Access Review of Information Systems	Resolved	2018, 2019
Document Payroll Certification Policies and Procedures	Resolved	2019
Improve Documentation over Payroll Reconciliations	Resolved	2019
Properly Complete the Employee Eligibility Form	Resolved	2019
Comply with 1500 Hour Rule for Wage Employees	Resolved	2017
Align System Access with the Principle of Least Privilege	New	2020
Strengthen Controls over Small Purchase Charge Cards	New	2020
Ensure Segregation of Duties During Payroll Certifications	New	2020
Improve Internal Controls over Purchasing System Access	Deferred*	2017

*Follow-up Status on prior year findings identified as “Deferred” indicates review of management’s corrective action on a prior year finding will be performed in a future audit.



COMMONWEALTH of VIRGINIA

HAROLD W. CLARKE
DIRECTOR

Department of Corrections

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RICHMOND, VIRGINIA 23261
(804) 674-3000

November 18, 2020

Martha S. Mavredes, CPA
Auditor of Public Accounts
Virginia Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

The Department of Corrections has reviewed the Auditor of Public Accounts (APA) report pertaining to the Department for the audit period July 1, 2019 through June 30, 2020. We understand the findings and appreciate the opportunity to respond to the recommendations.

The Department of Corrections will provide responses to the findings accompanied by plans to appropriately and specifically address the 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 any questions regarding this response.

Sincerely,

Joseph W. Walters
Deputy Director for Administration

JWW/bbr

cc: Harold W. Clarke

Louis B. Eacho ✓

DEPARTMENT OF CORRECTIONS

As of June 30, 2020

Harold W. Clarke, Director

David Robinson, Chief of Corrections, Operations

Joseph W. Walters, Deputy Director, Administrations

Scott Richeson, Re-entry and Programs Director

Lucinda Childs-White, Director of Human Resources

Kathy Brown, Internal Audit Director

Louis Eacho, Chief Fiscal Officer