



DEPARTMENT OF CORRECTIONS

REPORT ON AUDIT OF SELECT CYCLES

FOR THE YEAR ENDED

JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of the Department of Corrections (Corrections) for the fiscal year ended June 30, 2018, included internal controls and balances over the following areas:

- personnel, including payroll expenses, year-end compensated absences liability, and related personnel information reported in the Commonwealth's retirement benefits system;
- inventory management, including year-end inventory counts and balances;
- information system access over related information systems; and
- follow up on prior year findings entitled "Improve Controls over Building and Grounds Inventory at Fluvanna Correction Center for Women" and "Perform Annual Access Certifications for Information Systems."

Relative to the areas we tested, we found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's payroll system and the Commonwealth's accounting and financial reporting system;
- proper reporting, in all material respects of year-end payroll and inventory information submitted to the Department of Accounts;
- two matters involving internal control and its operation necessary to bring to management's attention;
- one instance of noncompliance with applicable laws and regulations that are required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year for which we performed follow up procedures during this audit.

Corrections recently implemented new procedures to monitor wage employees' time. As a result, we did not follow up on the finding "Comply with 1,500 Hour Rule for Wage Employees." Because our audit scope was limited to those areas described above, we did not follow up on the finding "Improve Internal Controls over Purchasing System Access." We will follow up on these findings in future years. Virginia Correctional Enterprises and the Virginia Parole Board were not included in our audit scope.

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AUDIT FINDINGS AND RECOMMENDATIONS

Document Retirement Benefits System Reconciliations

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Corrections' Human Resources department (Human Resources) is not adequately documenting reconciliations between the human resources system and the retirement benefits system. While discussions with the Human Resources Manager and Senior Benefits Analyst indicate that employee changes are reconciled, there is no documentation to support the creditable compensation reconciliation. In addition, the Human Resources and the Payroll departments did not resolve exceptions identified in the monthly automated reconciliation process in a timely manner. Finally, Management has not finalized policies and procedures that address how to perform and document these reconciliations.

The Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) Topic 50410 and the Virginia Retirement System Contribution Confirmation and Payment Scheduling Employer Manual require a creditable compensation and data elements reconciliation prior to certifying the snapshot confirmation. In addition, the CAPP Manual requires agencies to review and correct differences between the payroll system and retirement benefits systems.

The retirement benefits system contains essential retirement data for Corrections' employees and without maintaining the appropriate supporting documentation, Human Resources cannot provide assurance that employee records in the retirement benefits systems and human resources system are accurate. Additionally, a lack of policies and procedures increases the risk of inconsistency in completing the reconciliations.

Management has not approved the draft procedures developed by Human Resources. In addition, the draft procedures do not explicitly require a creditable compensation reconciliation. The unresolved issues in the monthly automated reconciliation process between the payroll system and the retirement benefits system were the result of the Human Resources not resolving discrepancies between the human resources system and retirement benefits systems prior to certifying the snapshot.

Management should finalize and implement policies and procedures to ensure compliance with the various requirements. Human Resources should create and retain reconciliation documentation. Furthermore, the Human Resources and Payroll departments should ensure that all discrepancies between the payroll system, retirement benefits system and human resources system are resolved timely.

Perform Annual Access Review of Information Systems

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Corrections has not performed an annual access review of the Commonwealth's attendance and leave system or the Commonwealth's human resource system in accordance with the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Security Standard, Section 8.1 AC-2(j), requires the agency to "review accounts for compliance with account management on an annual basis or more frequently if required to address environmental change."

Corrections does not have a policy to perform an annual access review of either system. The Commonwealth's attendance and leave system is a critical information system used for timekeeping and leave reporting while the personnel management information system is a critical information system used for managing personnel, compensation and health benefits data. Not conducting regular access reviews for mission critical systems threatens the integrity of the system and data housed within the system. Unnecessary access to the systems could result in fraudulent personnel, compensation, and leave information.

Corrections should perform an annual access review of the Commonwealth's attendance and leave system and the personnel management information systems. Furthermore, Corrections should develop and implement a policy to ensure compliance with the Security Standard going forward.

AUDIT SCOPE AND FINANCIAL INFORMATION

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 28,000 offenders. Corrections also oversees one privately operated institution that houses over 1,500 offenders. Corrections' payroll and fringe benefit expenses, and year-end inventory are material to the Commonwealth's financial statements and these cycles are included in our audit scope.

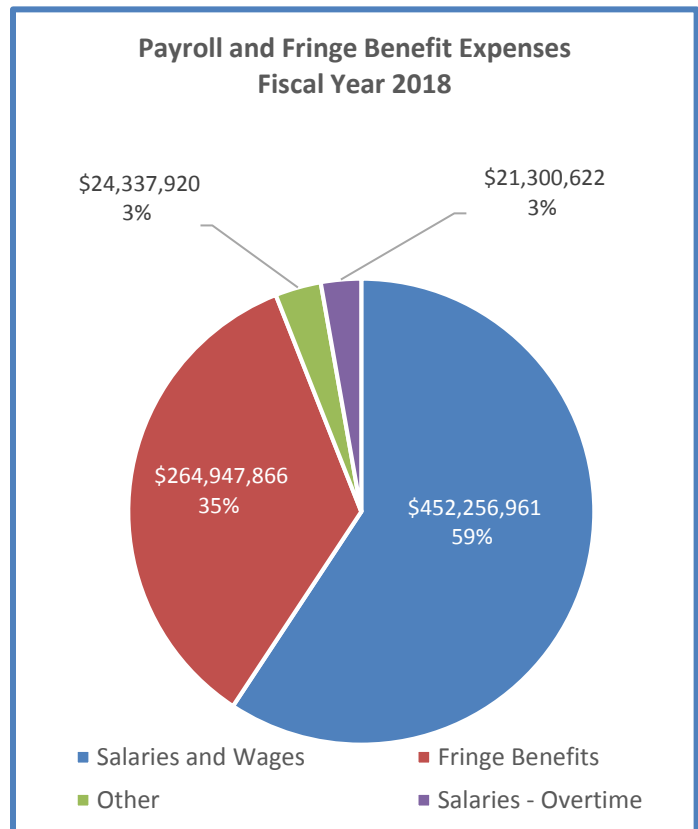
Payroll and Fringe Benefit Expenses

Corrections employs over 11,000 full time employees statewide, with the majority of staff being located in major correctional centers. Payroll and fringe benefit expenses totaled over \$762 million in fiscal year 2018 and a breakdown of these expenses is shown in Chart 1. Salaries and wages accounts for the majority of these expenses, but fringe benefits expenses are also significant. Payroll expenses also include \$21 million of overtime payments which represents an \$8 million (61%) increase from the previous year.

Chart 1

The increase in overtime expenses is primarily related to staffing issues at the various facilities. The most significant factor is increased turnover in security officer positions. Corrections has an overall position vacancy rate of 8.5 percent, which equates to approximately 1,000 positions and most of these are in the facilities. Facility security staffing requirements also contributed to the increases in overtime.

Security staffing is dependent on many factors. As an example, additional supervision is needed for uncertified correctional officers who have not completed mandatory training and; therefore, cannot independently operate a security post. Other contributing factors are a lack of funding to fully satisfy security post staffing requirements and additional security requirements for transporting offenders off-site for medical care. All of these factors combined have resulted in Corrections' security staff in the facilities having to work more overtime hours.

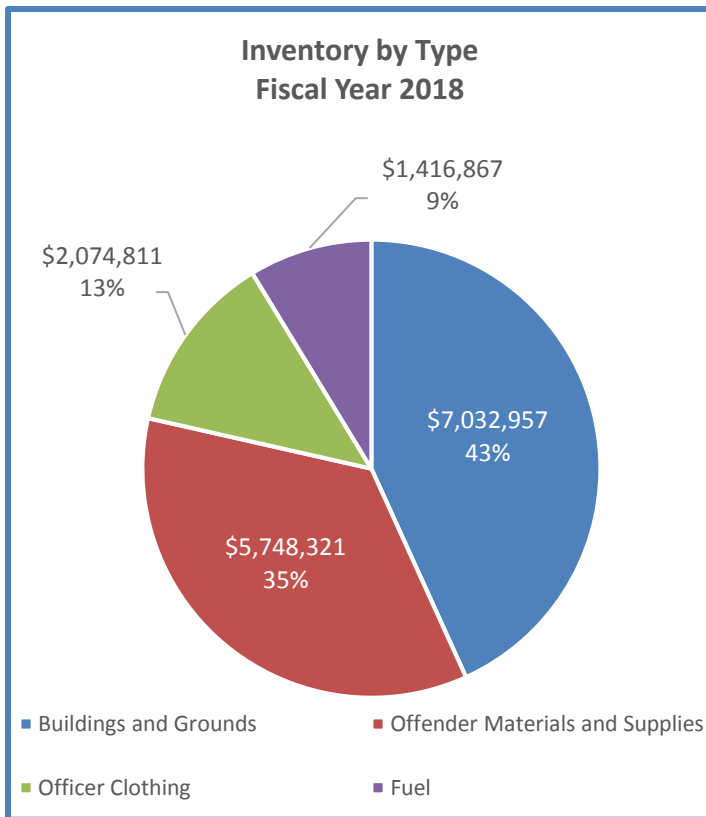


Source: Commonwealth's accounting and financial reporting system

Inventory

Most major correctional centers maintain various materials and supplies needed for operations. Corrections' year-end inventory was valued over \$16 million as of June 30, 2018 with a breakdown by type of inventory shown in Chart 2. As part of our audit, we observed year-end inventory counts at Greenville Correctional Center, Fluvanna Correctional Center, Sussex I Correctional Center, and Sussex II Correctional Center.

Chart 2



Source: Corrections' financial records

offenders and their year-end inventory was \$1.1 million. Deep Meadow took over the inventory and warehouse operations for several facilities that closed in prior fiscal years and this accounts for their large year-end inventory balance.

Corrections' Building and Grounds inventory makes up over 40 percent of the total inventory and includes items for various trade shops as well as maintenance of facilities. This includes plumbing, electrical, carpentry, welding and grounds materials. In addition, correctional centers also maintain offender materials and supplies inventory which includes clothing, bedding, toiletries, food and food supplies, medication and medical supplies.

As expected, some of the larger correctional centers typically maintain the most inventories. Historically, Greenville Correctional Center has had the most inventory on hand followed by Deep Meadow Correctional Center. Greenville is the largest facility with close to 3,000 offenders and their year-end inventory was approximately \$1.5 million. Greenville provides officer security uniforms to all facilities in the eastern region which contributes to their year-end inventory amount. Deep Meadow has almost 700



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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October 12, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations for the **Department of Corrections'** payroll and inventory cycles for the year ended June 30, 2018. 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, relative to personnel and inventory, 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, 2018. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system and payroll systems; evaluated the accuracy of related personnel information reported in the Commonwealth's retirement benefits system; reviewed the adequacy of the Department's internal control; and tested for compliance with applicable laws, regulations, contracts, and grant agreements. We also evaluated the accuracy of Corrections' payroll and inventory attachments reported to the Department of Accounts for inclusion in the CAFR for the year ended June 30, 2018.

We also reviewed corrective action for audit findings from the prior year as follows: "Improve Controls over Building and Grounds Inventory at Fluvanna Correction Center for Women" and "Perform Annual Access Certifications for Information Systems." In future years, we will follow up on the other findings reported in the prior year.

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 significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over payroll, inventory, and information systems access over related information systems.

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, records, and contracts, and observation of the Correction's operations. We performed analytical procedures, including budgetary and trend analyses. We also 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.

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 and payroll system. We found the related personnel information reported in the Commonwealth's retirement benefits system was accurate, in all material respects. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system or Corrections' inventory system.

We found that Corrections properly stated, in all material respects, the amounts reported in payroll and inventory attachments reported to the Department of Accounts for inclusion in the CAFR for the year ended June 30, 2018.

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."

Corrections has taken adequate corrective action with respect to the audit findings that we followed up on during the audit. Audit findings not addressed during this audit will be addressed in future years.

Exit Conference and Report Distribution

We discussed this report with management on December 3, 2018. 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



COMMONWEALTH of VIRGINIA

HAROLD W. CLARKE
DIRECTOR

Department of Corrections

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December 3, 2018

Ms. Martha Mavredes
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, 2017 through July 1, 2018. We understand the findings and appreciate the opportunity to respond to the recommendations.

The Department of Corrections will provide viable 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 questions regarding this response.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Walters", with a large, sweeping flourish extending to the right.

Joseph W. Walters
Deputy Director Administration

cc: Mr. Harold W. Clarke
Mr. Louis B. Eacho

DEPARTMENT OF CORRECTIONS

As of June 30, 2018

Harold W. Clarke, Director

David Robinson, Chief of Corrections Operations

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

Scott Richeson, Re-entry and Programs Director

Joseph W. Walters, Director of Human Resources

Louis Eacho, Chief Fiscal Officer