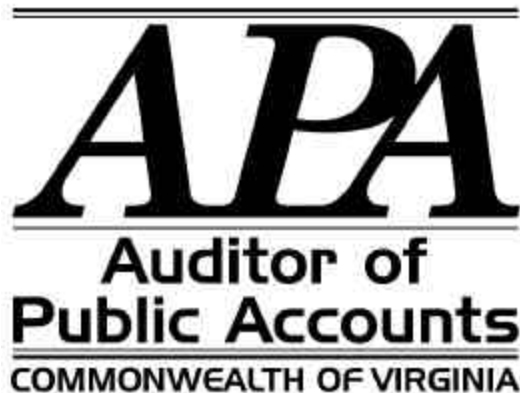


**DEPARTMENT OF CORRECTIONS AND  
VIRGINIA PAROLE BOARD  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**



## **AUDIT SUMMARY**

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2002, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- certain internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with selected provisions of applicable laws and regulations; and
- inadequate implementation of corrective action with respect to the prior audit findings “Ensure Proper Recording and Tracking of Leases” and “Properly Record Accounts Payable.”

This report does not include Virginia Correctional Enterprises. We issue a separate report with financial information, findings, and recommendations related to Virginia Correctional Enterprises.

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## **AGENCY BACKGROUND AND FINANCIAL INFORMATION**

The Department of Corrections (Corrections) operates the state's correctional facilities for adult offenders and directs the work of all probation and parole officers. Corrections has determined that its mission is to enhance public safety by controlling and supervising sentenced offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards. Corrections also coordinates correctional activities that relate to parole with the Parole Board. Corrections processes the financial transactions of the Parole Board and reports its financial information.

Corrections administers operations through a central administrative agency, two central divisions, and four regional offices. The two central divisions are Institutions and Community Corrections. The Institutions division oversees the operations of 27 major correctional centers, five work centers, two reception and classification centers, one treatment center, and 14 field units. During fiscal year 2002, Corrections had an average daily population of 31,367 inmates, including 3,145 out-of-state inmates, in these facilities.

Due to budget reductions, Corrections closed the Southampton Treatment Center, Fairfax Field Unit, Nottoway Work Center, Tidewater Woman's Detention Center and the Northern Regional Office in the last quarter of fiscal year 2002. The Staunton Correctional Center closed in December 2002.

The Community Corrections division had approximately 1,016 inmates in alternative programs, including five detention centers, seven diversion centers, and a boot camp for non-violent probationers. In addition, division staff supervised over 43,000 probationers and parolees, which includes approximately 4,420 participants of special programs such as Pilot Project Sex Offenders and Home Electronic Monitoring. Community Corrections operates with 42 Probation and Parole Districts and 582 Probation Officers. In addition, the Community Corrections' Local Facilities Unit is the department's liaison with local and regional jails and lockups.

### **Financial Information**

During fiscal year 2002, Corrections employed over 12,480 individuals, most of who work in the Institutions division. The following schedule compares selected operating statistics for the past five fiscal years. Overall, the department's operating budget has increased over the last five years as Corrections has opened new facilities. The decrease in the operating budget from fiscal year 2001 to 2002 reflects the budget reductions discussed in more detail later in this section.

	<b>Fiscal Year 1998</b>	<b>Fiscal Year 1999</b>	<b>Fiscal Year 2000</b>	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>
Average Daily Inmate Population	24,967	27,118	29,750	30,638	32,383
Average Annual Cost Per Inmate	\$17,253	\$18,590	\$19,364	\$20,909	\$19,053*
Total Operating Budget (in millions)	\$607	\$705	\$762	\$791	\$777

Source: Management Information Summary Report and Population Summary

\* This amount is based on the Per Capita Schedule shown on page 13. Management Information Summary Report for fiscal year 2002 was unavailable for this report.

Corrections' primary funding comes from general fund appropriations that pay over 90 percent of the operating expenses. Corrections also receives monies for housing out-of-state inmates and from federal

grants. In fiscal year 2002, Corrections incurred over \$11 million in additional budget reductions. These reductions were realized through turnover and vacancy savings, reductions in food cost and equipment purchases, and facility closings. In addition, the Appropriations Act required that Corrections make several transfers during the year to the general fund that include \$5.8 million in out-of-state inmate funds and a year end transfer of \$4 million. Correction can use this year end transfer to offset it planned fiscal year 2003 budget reductions of over \$37 million.

The following table details the original budget, adjusted budget and actual operating expenses in fiscal year 2002 by division and program. Appropriations under the Institutions Division's secure confinement program decreased by over \$30 million. This decrease was realized through reductions in retirement contributions beginning in December 2001, adjustments for correctional officer turnover and vacancy savings, as well as across-the-board reductions. Appropriation under the Central Office's administration and support services program increased by over \$9 million during the year. This increase was due to \$2.7 million in out-of-state inmate funds that were transferred to this division to help pay for an information technology project and a \$3.3 million increase to fund additional information technology requirements. In addition, there were increases in rent and utilities, and several positions were added or transferred from other programs, also contributing to the increase.

Program Number	Original Appropriations	Adjusted Appropriations	Expenses
<u>Division of Institutions:</u>			
Administrative and Support Services	\$ 250,301,329	\$ 255,482,794	\$ 255,091,063
Community-Based Custody	411,050	25,000	-
Secure Confinement	400,312,484	369,752,293	367,765,528
Classification Services	7,074,544	6,759,741	6,759,738
Corrections Special Reserve Fund	-	-	-
Agribusiness	<u>5,627,224</u>	<u>6,006,797</u>	<u>5,998,904</u>
Total	<u>663,726,631</u>	<u>638,026,625</u>	<u>635,615,233</u>
<u>Division of Community Corrections:</u>			
Administrative and Support Services	6,261,328	8,659,563	8,656,759
Community Based Custody	7,837,687	6,231,531	6,231,456
Probation and Reentry Services	60,815,111	60,593,222	59,928,068
Confinement and Custody Research, Planning and Coordination	198,592	84,340	84,315
Financial Assistance for Confinement in Local Facilities	-	248,948	248,928
Secure Confinement	<u>18,612,869</u>	<u>14,590,586</u>	<u>14,590,343</u>
Total	<u>93,725,587</u>	<u>90,408,190</u>	<u>89,739,869</u>

Central Administration:

Administration and Support Services	33,175,805	42,922,615	40,149,946
Criminal Justice Training, Education, and Standards	3,346,147	4,098,136	4,098,061
Confinement and Custody Research Planning and Coordination	974,511	1,077,697	1,077,697
Vending Facilities, Snack Bars, and Cafeteria	<u>518,474</u>	<u>578,490</u>	<u>578,352</u>
Total	<u>38,014,937</u>	<u>48,676,938</u>	<u>45,904,056</u>
Agency Total	<u>\$ 795,467,155</u>	<u>\$ 777,111,753</u>	<u>\$ 771,259,158</u>

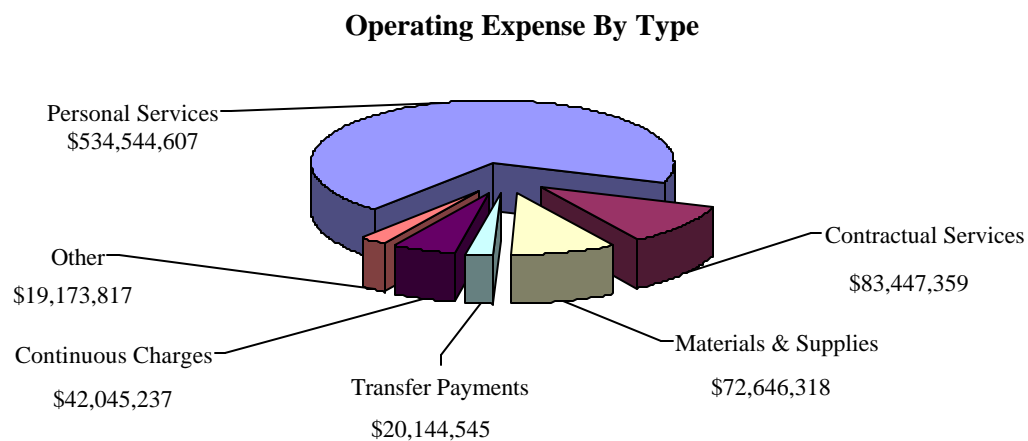
Virginia Parole Board

Parole and Reentry Services	<u>\$ 862,263</u>	<u>\$ 805,988</u>	<u>\$ 742,907</u>
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Source: Appropriations Act (Chapter 814) and the Commonwealth Accounting and Reporting System

The majority of Correction's expenses are for payroll and fringe benefits for its 12,480 employees. These expenses account for over 69 percent of Correction's total operating budget. Corrections second largest expense item is contractual services. Corrections has several large contracts for services and goods at various facilities including food services, medical and prescription drug services, and phone services. Corrections has a contract with MCI WorldCom for phone services in the prisons. MCI WorldCom filed for bankruptcy in fiscal year 2002. As a result, Corrections has not received commissions from WorldCom for June or July 2002 phone services. These total over \$1.1 million, and Corrections is working with the Attorney General's office on this issue.

The following chart shows total operating expenses by type for fiscal year 2002.



Corrections uses the Commonwealth Accounting and Reporting System (CARS) as its primary financial accounting system. CARS does not include the inmate trust funds and commissary funds. Inmate trust funds are funds recorded and held by the institutions for the inmate's use, and totaled \$4.6 million at June 30, 2002. The individual institutions also manage commissary funds that arise from the sale of personal products to inmates. For fiscal year 2002, commissary revenues and expenses were \$23.9 million and \$22.2 million, respectively. Corrections has accumulated a commissary fund balance of \$5.6 million as of June 30, 2002, which Corrections intends to use to fund commissary operations in the future.

In addition to the operating expenses discussed above, Corrections also has capital outlay and maintenance reserve expenses. In fiscal year 2002, Corrections spent \$9.3 million for capital outlay of which \$2.5 million was the reconstruction of St. Brides Correctional Center. Corrections is building a new unit at this center and tearing down an old unit. The construction should not increase the center capacity, but will replace older facilities. Corrections finalized the construction contract in January 2001 and construction began in June 2001. The project's funding is a federal grant that requires a 10 percent cash match of the total expenses. Corrections estimates the total projects cost will be almost \$45 million with an estimated completion date of April 2004.

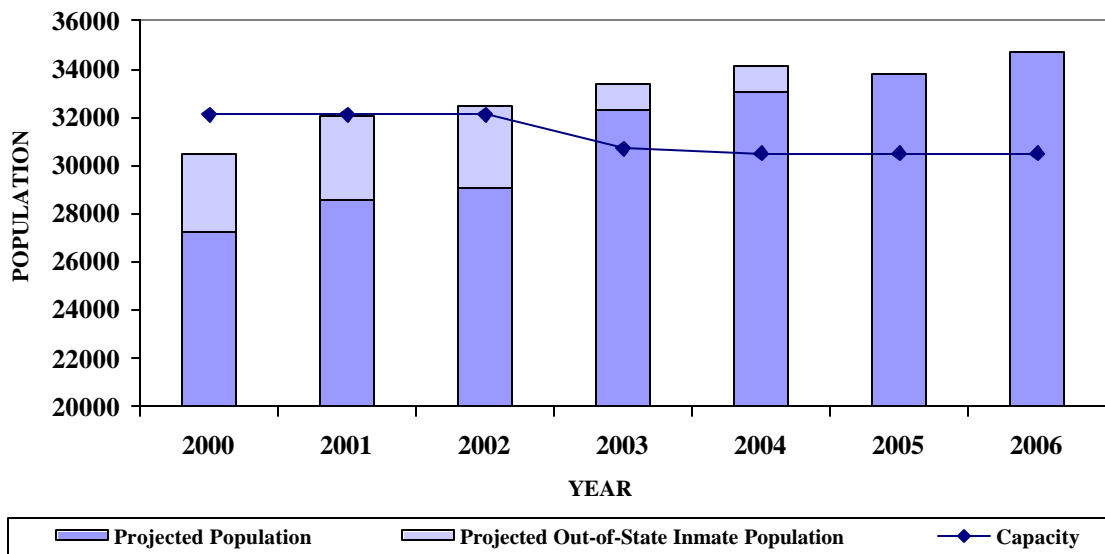
#### Inmate Population and Capacity

Corrections built and opened five new prisons in recent years. Of these five prisons, Fluvanna and Sussex I opened in fiscal year 1998; Red Onion, Sussex II, and Wallens Ridge opened in fiscal year 1999. Corrections also contracted with a private entity to operate a medium-security prison in Lawrenceville in 1998, which we discuss in more detail in the section entitled "Prison Privatization."

The need for these new facilities came from past inmate population forecasts that projected inmate population would almost double from 29,963 in 1996 to 51,669 in 2005. Actual inmate populations and recent projections have not met these forecasts, which reflects an unexpected drop in the crime rate from 1994 to 2000. Therefore, Corrections has significantly reduced future inmate population projections to reflect the current trends. The new facilities combined with the revised population projections resulted in excess capacity in many facilities. To address this, Corrections began contracting with other states to house some of their inmates. The following graph compares projected future inmate population, including out-of-state inmates, to capacity.

As shown on the graph, Corrections anticipates a capacity shortage over the next four years. The projected population considers having no non-compliance inmates in the local jails. Non-compliance inmates are inmates that remain in the local jail 60-days after becoming state responsible inmates unless they meet specified requirements. As of June 2002, there were 1,660 non-compliance inmates housed in local jails. Corrections has developed several plans to address the potential capacity shortage and the Governor and the General Assembly are still considering these plans.

## PROJECTED PRISON POPULATION AND CAPACITY



Source: Department of Corrections State Responsible Inmate Population Projections  
Out-of-state Inmate Overview and Master Plan

As discussed above, Corrections began contracting to house out-of-state inmates in the late 1990s to fill the excess capacity in the prisons. In fiscal year 2002, Corrections had contracts to house prisoners from Vermont, Connecticut, New Mexico, Hawaii, the Virgin Islands and the Federal Bureau of Prisons. The largest of these contracts, the Federal Bureau of Prisons, will end in fiscal year 2003 while the other contracts should continue into fiscal year 2004.

Corrections charges a daily rate between \$43 and \$75 based on the contract requirements and the security level of the inmates. Corrections retains revenue to cover the direct costs of housing these inmates and transfers a portion to the Department of Correctional Education (DCE) for educational costs. Corrections must transfer a portion of the revenues to the General Fund of the Commonwealth. In fiscal year 2002, Corrections transferred \$5.8 million to the General Fund. The following table shows out-of-state inmate population and financial information through 2004.

	1999 (Actual)	2000 (Actual)	2001 (Actual)	2002 (Actual)	2003 (Estimated)	2004 (Estimated)
Average Daily Out-of-State-Inmate Population	2,166	3,487	3,364	3,145	1,139	1,139
Total Out-of-State Inmate Revenue	\$47,852,448	\$78,311,166	\$77,787,415	\$73,560,188	\$21,890,843	19,851,840
Total Amount Returned to the General Fund	\$9,539,721	\$21,383,807	\$3,200,000	\$5,868,000	None	None

Source: Department of Corrections Out-of-State Inmate Overview and Population Summary



Corrections obtained a \$12.5 million Treasury Loan in 1999 to cover start up costs associated with housing out-of-state inmates. Corrections repaid the balance of this loan, approximately \$6 million, in fiscal year 2002. Corrections is slowly phasing out these contracts as states transfer their prisoners back to their own state prisons. Corrections currently has contracts for housing prisoners from other states through fiscal year 2004 as reflected in the above table. Corrections relies solely on the out-of-state inmate revenues to cover all of the expenses for Sussex II and St. Brides, as well as additional expenses directly associated with housing the inmates. With the anticipated decrease in the number of contracted prisoners, Corrections will be unable to rely on this revenue source and could require additional general funds to cover the expenses currently supported with the out-of-state inmate revenues.

#### Comparison of Major Correctional Center Costs

During fiscal year 2002, Corrections had an average daily population of 26,218 inmates in 27 of its major correctional centers. These facilities operate at various security levels ranging from minimum (level 1) to super-maximum (level 6). The Central Office establishes operating budgets for the correctional centers and maintains oversight through regional offices. Each correctional center operates as a separate agency with the Warden having primary responsibility for administering the facility's operating budget. The Department of Correctional Education, a separate agency, administers inmate education programs for the facilities and accounts for these costs. The tables on pages 7 through 13 compare operating and other costs for the major correctional centers. The tables do not include the costs of the privately operated facility in Lawrenceville, which we discuss in the "Prison Privatization" section.

As shown in the tables, the average per diem for operating costs range from \$37 to \$154 for the four levels of security with an average per diem of \$54 for all facilities. Operating costs do not include maintenance reserve, regional office administration, central office administration, or waste water treatment. Operating costs also do not include debt service costs because the Treasury Board receives an appropriation to make the debt payments directly to the Virginia Public Building Authority.

Marion Correctional Treatment Center has the highest per diem cost of the major institutions. Most of Marion's inmates are mentally ill resulting in high medical costs and a low inmate-to-staff ratio. Powhatan has the next highest per diem rate of \$79.52 per inmate. Powhatan has a larger medical facility than many facilities, and cares for transfer prisoners from other facilities in need of certain medical services. Also, many minimum-security facilities have the highest security costs because these prisons are the oldest facilities and require the most manpower to secure and maintain. Super-maximum-security facilities house the most violent inmates with the highest security risk increasing their security costs.

	<b>Red Onion Correctional Center</b> <u>Security Level 6</u>	<b>Wallen's Ridge Correctional Center</b> <u>Security Level 6</u>	<b>Sussex I Correctional Center</b> <u>Security Level 5</u>	<b>Sussex II Correctional Center</b> <u>Security Level 5</u>
<b>Average Daily Population</b>	898	833	1,175	1,140
<b>Department of Corrections Expenses</b>				
Personal Services	\$ 14,791,880	\$ 14,826,405	\$ 15,516,047	\$ 14,566,730
Contractual Services	124,216	159,124	441,888	321,611
Supplies and Materials	756,226	731,985	1,282,847	1,937,723
Medical and Clinical Services	1,430,546	1,441,291	3,078,737	2,668,143
Food and Dietary Services	1,275,117	1,334,262	1,103,492	490,769
Transfer Payments	89,586	72,539	126,203	129,984
Continuous Charges	1,094,151	899,810	3,199,470	640,105
Property and Improvement	-	-	-	-
Plant and Improvement	896	101,501	-	-
Equipment	<u>179,789</u>	<u>232,605</u>	<u>176,876</u>	<u>201,084</u>
Total	<u>19,742,407</u>	<u>19,799,522</u>	<u>24,925,560</u>	<u>20,956,149</u>
<b>Department of Correctional Education Expenses</b>				
Education Expense	<u>420,587</u>	<u>442,857</u>	<u>372,442</u>	<u>684,927</u>
Total Expenses	<u>\$ 20,162,994</u>	<u>\$ 20,242,379</u>	<u>\$ 25,298,002</u>	<u>\$ 21,641,076</u>
<b>Per Capita Expenses</b>				
Department of Corrections	\$ 21,985	\$ 23,769	\$ 21,213	\$ 18,383
Department of Correctional Education	<u>468</u>	<u>532</u>	<u>317</u>	<u>601</u>
Total Per Capita Expenses	<u>\$ 22,453</u>	<u>\$ 24,301</u>	<u>\$ 21,530</u>	<u>\$ 18,983</u>
<b>Per Diem Expenses</b>				
Department of Corrections	\$ 60.23	\$ 65.12	\$ 58.12	\$ 50.36
Department of Correctional Education	<u>1.28</u>	<u>1.46</u>	<u>0.87</u>	<u>1.65</u>
Total Per Diem Expenses	<u>\$ 61.51</u>	<u>\$ 66.58</u>	<u>\$ 58.99</u>	<u>\$ 52.01</u>

	<b>Keen Mountain Correctional Center</b>	<b>Nottoway Correctional Center</b>	<b>Augusta Correctional Center</b>	<b>Brunswick Correctional Center</b>
	<u>Security Level 4</u>	<u>Security Level 4</u>	<u>Security Level 3 and 4</u>	<u>Security Level 3</u>
<b>Average Daily Population</b>	892	1,335	1,103	910
<b><u>Department of Corrections Expenses</u></b>				
Personal Services	\$11,172,043	\$ 18,479,519	\$ 15,426,381	\$ 15,030,088
Contractual Services	97,321	320,024	268,541	176,144
Supplies and Materials	776,529	1,267,493	1,173,521	1,105,946
Medical and Clinical Services	829,987	1,295,968	1,167,151	1,411,796
Food and Dietary Services	1,099,943	1,511,576	1,438,943	1,216,363
Transfer Payments	11,143	11,338	19,450	50,523
Continuous Charges	937,232	614,616	759,224	504,900
Property and Improvement	-	-	84,534	-
Plant and Improvement	3,150	-	-	-
Equipment	<u>77,510</u>	<u>310,707</u>	<u>719,253</u>	<u>253,467</u>
Total	<u>15,104,858</u>	<u>23,811,241</u>	<u>21,056,998</u>	<u>19,749,227</u>
<b><u>Department of Correctional Education Expenses</u></b>				
Education Expense	<u>465,984</u>	<u>719,913</u>	<u>482,848</u>	<u>785,208</u>
Total Expenses	<u>\$15,570,842</u>	<u>\$ 24,531,154</u>	<u>\$ 21,539,846</u>	<u>\$ 20,534,435</u>
<b><u>Per Capita Expenses</u></b>				
Department of Corrections	\$ 16,934	\$ 17,836	\$ 19,091	\$ 21,702
Department of Correctional Education	<u>522</u>	<u>539</u>	<u>438</u>	<u>863</u>
Total Per Capita Expenses	<u>\$ 17,456</u>	<u>\$ 18,375</u>	<u>\$ 19,529</u>	<u>\$ 22,565</u>
<b><u>Per Diem Expenses</u></b>				
Department of Corrections	\$ 46.39	\$ 48.87	\$ 52.30	\$ 59.46
Department of Correctional Education	<u>1.43</u>	<u>1.48</u>	<u>1.20</u>	<u>2.36</u>
Total Per Diem Expenses	<u>\$ 47.82</u>	<u>\$ 50.34</u>	<u>\$ 53.50</u>	<u>\$ 61.82</u>

	<b>Buckingham Correctional Center</b> <u>Security Level 3</u>	<b>Fluvanna Correctional Center</b> <u>Security Level 3</u>	<b>Greensville Correctional Center</b> <u>Security Level 3</u>	<b>Powhatan Correctional Center</b> <u>Security Level 3</u>
<b>Average Daily Population</b>	940	1,152	3,182	821
<b><u>Department of Corrections Expenses</u></b>				
Personal Services	\$ 13,697,953	\$ 13,698,770	\$35,337,005	\$ 14,791,833
Contractual Services	154,652	411,582	851,708	290,125
Supplies and Materials	1,612,223	1,050,363	3,212,174	1,683,111
Medical and Clinical Services	1,121,850	6,591,831	10,215,293	4,445,793
Food and Dietary Services	477,094	1,178,251	3,901,886	1,288,817
Transfer Payments	33,139	42,025	226,030	10,704
Continuous Charges	655,639	523,541	2,079,404	178,128
Property and Improvement	390,682	-	143,673	-
Plant and Improvement	-	20,157	-	-
Equipment	<u>488,078</u>	<u>336,891</u>	<u>509,155</u>	<u>542,718</u>
Total	<u>18,631,310</u>	<u>23,853,411</u>	<u>56,476,328</u>	<u>23,231,229</u>
<b><u>Department of Correctional Education Expenses</u></b>				
Education Expense	<u>515,021</u>	<u>1,292,351</u>	<u>1,678,185</u>	<u>599,175</u>
Total Expenses	<u>\$ 19,146,331</u>	<u>\$ 25,145,762</u>	<u>\$58,154,513</u>	<u>\$ 23,830,404</u>
<b><u>Per Capita Expenses</u></b>				
Department of Corrections	\$ 19,821	\$ 20,706	\$ 17,749	\$ 28,296
Department of Correctional Education	<u>548</u>	<u>1,122</u>	<u>527</u>	<u>730</u>
Total Per Capita Expenses	<u>\$ 20,369</u>	<u>\$ 21,828</u>	<u>\$ 18,276</u>	<u>\$ 29,026</u>
<b><u>Per Diem Expenses</u></b>				
Department of Corrections	\$ 54.30	\$ 56.73	\$ 48.63	\$ 77.52
Department of Correctional Education	<u>1.50</u>	<u>3.07</u>	<u>1.44</u>	<u>2.00</u>
Total Per Diem Expenses	<u>\$ 55.80</u>	<u>\$ 59.80</u>	<u>\$ 50.07</u>	<u>\$ 79.52</u>

	<b>Southampton Correctional Center</b> <u>Security Level 3</u>	<b>Bland Correctional Center</b> <u>Security Level 2</u>	<b>Coffeewood Correctional Center</b> <u>Security Level 2</u>	<b>Deep Meadow Correctional Center</b> <u>Security Level 2</u>
<b>Average Daily Population</b>	648	639	1,199	964
<b><u>Department of Corrections Expenses</u></b>				
Personal Services	\$ 9,756,382	\$ 11,543,965	\$ 10,488,193	\$ 12,540,710
Contractual Services	286,931	124,891	443,127	104,460
Supplies and Materials	1,488,960	753,158	1,040,290	891,939
Medical and Clinical Services	627,944	840,777	1,454,301	1,305,519
Food and Dietary Services	913,441	829,533	1,277,839	1,147,991
Transfer Payments	29,524	33	5,328	6,929
Continuous Charges	533,926	305,120	467,825	245,744
Property and Improvement	27	10,048	29,345	4,278
Plant and Improvement	-	-	-	-
Equipment	<u>638,050</u>	<u>211,844</u>	<u>535,735</u>	<u>541,788</u>
Total	<u>14,275,185</u>	<u>14,619,369</u>	<u>15,741,983</u>	<u>16,789,358</u>
<b><u>Department of Correctional Education Expenses</u></b>				
Education Expense	<u>1,008,498</u>	<u>558,581</u>	<u>630,758</u>	<u>535,250</u>
Total Expenses	<u>\$ 15,283,683</u>	<u>\$ 15,177,950</u>	<u>\$ 16,372,741</u>	<u>\$ 17,324,608</u>
<b><u>Per Capita Expenses</u></b>				
Department of Corrections	\$ 22,030	\$ 22,879	\$ 13,129	\$ 17,416
Department of Correctional Education	<u>1,556</u>	<u>874</u>	<u>526</u>	<u>555</u>
Total Per Capita Expenses	<u>\$ 23,586</u>	<u>\$ 23,753</u>	<u>\$ 13,655</u>	<u>\$ 17,971</u>
<b><u>Per Diem Expenses</u></b>				
Department of Corrections	\$ 60.36	\$ 62.68	\$ 35.97	\$ 47.72
Department of Correctional Education	<u>4.26</u>	<u>2.39</u>	<u>1.44</u>	<u>1.52</u>
Total Per Diem Expenses	<u>\$ 64.62</u>	<u>\$ 65.07</u>	<u>\$ 37.41</u>	<u>\$ 49.24</u>

	<b>Deerfield Correctional Center</b> <u>Security Level 2</u>	<b>Dillwyn Correctional Center</b> <u>Security Level 2</u>	<b>Haynesville Correctional Center</b> <u>Security Level 2</u>	<b>Indian Creek Correctional Center</b> <u>Security Level 2</u>
<b>Average Daily Population</b>	489	1,088	1,047	1,000
<b>Department of Corrections Expenses</b>				
Personal Services	\$ 7,211,580	\$10,604,363	\$ 12,757,751	\$10,806,084
Contractual Services	72,513	201,627	208,734	362,222
Supplies and Materials	437,632	888,000	809,370	916,292
Medical and Clinical Services	834,548	1,083,512	1,318,195	953,336
Food and Dietary Services	759,918	1,097,006	1,419,220	1,215,142
Transfer Payments	11,545	15,832	76,605	17,818
Continuous Charges	137,785	467,235	393,083	319,207
Property and Improvement	9,840	-	-	-
Plant and Improvement	53,242	-	-	-
Equipment	<u>361,122</u>	<u>77,325</u>	<u>342,784</u>	<u>143,930</u>
Total	<u>9,889,725</u>	<u>14,434,900</u>	<u>17,325,742</u>	<u>14,734,031</u>
<b>Department of Correctional Education Expenses</b>				
Education Expense	<u>419,375</u>	<u>508,788</u>	<u>582,094</u>	<u>602,845</u>
Total Expenses	<u>\$ 10,309,100</u>	<u>\$14,943,688</u>	<u>\$ 17,907,836</u>	<u>\$15,336,876</u>
<b>Per Capita Expenses</b>				
Department of Corrections	\$ 20,224	\$ 13,267	\$ 16,548	\$ 14,734
Department of Correctional Education	<u>858</u>	<u>468</u>	<u>556</u>	<u>603</u>
Total Per Capita Expenses	<u>\$ 21,082</u>	<u>\$ 13,735</u>	<u>\$ 17,104</u>	<u>\$ 15,337</u>
<b>Per Diem Expenses</b>				
Department of Corrections	\$ 55.41	\$ 36.35	\$ 45.34	\$ 40.37
Department of Correctional Education	<u>2.35</u>	<u>1.28</u>	<u>1.52</u>	<u>1.65</u>
Total Per Diem Expenses	<u>\$ 57.76</u>	<u>\$ 37.63</u>	<u>\$ 46.86</u>	<u>\$ 42.02</u>

	<b>James River Correctional Center</b> <u>Security Level 2</u>	<b>Lunenburg Correctional Center</b> <u>Security Level 2</u>	<b>Mecklenburg Reclassification Center</b> <u>Security Level 2</u>	<b>St. Brides Correctional Center</b> <u>Security Level 2</u>
<b>Average Daily Population</b>	727	1,178	711	588
<b><u>Department of Corrections Expenses</u></b>				
Personal Services	\$ 10,423,369	\$ 11,052,889	\$ 12,571,034	\$ 7,111,907
Contractual Services	214,390	147,556	84,260	120,678
Supplies and Materials	469,077	950,099	706,799	658,754
Medical and Clinical Services	512,722	1,525,429	910,759	372,857
Food and Dietary Services	914,146	1,398,732	740,144	767,612
Transfer Payments	7,066	50,871	12,315	5,314
Continuous Charges	342,863	1,047,505	1,095,052	251,386
Property and Improvement	54	7,007	-	-
Plant and Improvement	-	-	-	-
Equipment	<u>364,704</u>	<u>188,400</u>	<u>109,282</u>	<u>96,858</u>
Total	<u>13,248,391</u>	<u>16,368,488</u>	<u>16,229,645</u>	<u>9,385,366</u>
<b><u>Department of Correctional Education Expenses</u></b>				
Education Expense	<u>576,927</u>	<u>705,880</u>	<u>270,481</u>	<u>1,177,335</u>
Total Expenses	<u>\$ 13,825,318</u>	<u>\$ 17,074,368</u>	<u>\$ 16,500,126</u>	<u>\$ 10,562,701</u>
<b><u>Per Capita Expenses</u></b>				
Department of Corrections	\$ 18,223	\$ 13,895	\$ 22,827	\$ 15,962
Department of Correctional Education	<u>794</u>	<u>599</u>	<u>380</u>	<u>2,002</u>
Total Per Capita Expenses	<u>\$ 19,017</u>	<u>\$ 14,494</u>	<u>\$ 23,207</u>	<u>\$ 17,964</u>
<b><u>Per Diem Expenses</u></b>				
Department of Corrections	\$ 49.93	\$ 38.07	\$ 62.54	\$ 43.73
Department of Correctional Education	<u>2.17</u>	<u>1.64</u>	<u>1.04</u>	<u>5.49</u>
Total Per Diem Expenses	<u>\$ 52.10</u>	<u>\$ 39.71</u>	<u>\$ 63.58</u>	<u>\$ 49.22</u>

	<b>Staunton Correctional Center <u>Security Level 2</u></b>	<b>Virginia Correctional Center for Women <u>Security Level 2</u></b>	<b>Marion Correctional Center <u>Security Level 2</u></b>	<b>ALL MAJOR Correctional Centers</b>
<b>Average Daily Population</b>	760	506	209	26,218
<b><u>Department of Corrections Expenses</u></b>				
Personal Services	\$ 10,968,683	\$ 7,406,524	\$ 8,533,857	\$351,111,945
Contractual Services	172,734	142,321	138,100	6,441,480
Supplies and Materials	801,424	752,559	329,485	28,483,979
Medical and Clinical Services	1,228,070	1,557,268	1,860,823	52,084,446
Food and Dietary Services	1,080,808	840,302	463,231	31,181,578
Transfer Payments	9,408	11,861	486	1,083,599
Continuous Charges	477,534	187,328	170,167	18,527,980
Property and Improvement	260	-	-	679,748
Plant and Improvement	-	-	-	178,946
Equipment	<u>60,147</u>	<u>247,439</u>	<u>116,945</u>	<u>8,164,486</u>
Total	<u>14,799,068</u>	<u>11,145,602</u>	<u>11,613,094</u>	<u>497,938,187</u>
<b><u>Non Department of Corrections Expenses</u></b>				
Education Expense	<u>782,426</u>	<u>786,427</u>	<u>205,592</u>	<u>17,810,755</u>
Total Expenses	<u>\$ 15,581,494</u>	<u>\$ 11,932,029</u>	<u>\$ 11,818,685</u>	<u>\$515,748,942</u>
<b><u>Per Capita Expenses</u></b>				
Department of Corrections	\$ 19,472	\$ 22,027	\$ 55,565	\$ 19,053
Department of Correctional Education	<u>1,030</u>	<u>1,554</u>	<u>984</u>	<u>682</u>
Total Per Capita Expenses	<u>\$ 20,502</u>	<u>\$ 23,581</u>	<u>\$ 56,549</u>	<u>\$ 19,735</u>
<b><u>Per Diem Expenses</u></b>				
Department of Corrections	\$ 53.35	\$ 60.35	\$ 152.23	\$ 52.20
Department of Correctional Education	<u>2.82</u>	<u>4.26</u>	<u>2.70</u>	<u>1.87</u>
Total Per Diem Expenses	<u>\$ 56.17</u>	<u>\$ 64.61</u>	<u>\$ 154.93</u>	<u>\$ 54.07</u>



### Prison Privatization

Corrections contracted with a private corporation, Corrections Corporation of American (CCA), for the construction and operation of a medium-security prison with 1,536 general population beds, and 42 segregation beds. The facility, located in Lawrenceville, opened in March 1998. The Industrial Development Authority of Brunswick County used bond financing to pay for the design and construction of the facility. Corrections leases the facility from the Authority, and has the option to purchase the facility for \$1 at the end of the bond term.

The CCA contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The average daily population for fiscal year 2002 was 1,573. The facility houses only males inmates and does not have a major medical facility. The contract establishes a per diem rate of \$35.20 for the first 1,425 inmates and \$13.97 for each inmate above 1,425 during the first year, which began on March 23, 1998. The contract adjusts the per diem rates on March 23 of each of the four subsequent years with rates ranging from \$31.08 to \$33.96 for the first 1,425 inmates and \$14.39 to \$15.72 for each inmate above 1,425. The private prison's per diem rate covers all operating costs of the facility with the exception of the transportation costs of transferring the inmates in and out of the facility, depreciation expense, and debt service costs. The per diem costs also include administrative costs from CCA headquarters as well as the facility.

CCA obtained American Corrections Association (ACA) accreditation during November 1999. ACA is a national private non-profit organization that establishes standards for correctional institutions. Most of Corrections' newer facilities have become ACA accredited, although some of the older prison cannot because they cannot meet all of the accreditation standards. Corrections also has its own institutional standards for its facilities. CCA must also meet Corrections' institutional standards.

Chapter 1073 of the Act of the Assembly directed Corrections to evaluate the long-term cost and effectiveness of the privately operated facility. The evaluation was to include the facility's compliance with state and national professional standards, the effectiveness of education and treatment programs, the overall security of the facility, the conditions under which prisoners are incarcerated, the maintenance of the physical facility, and the cost effectiveness of the facility's operating procedures. The report found that it was difficult to assess these components based on other facilities due to the uniqueness of the facility, but concluded that Lawrenceville is a well run, cost efficient institution.

The contract with CCA will expire on March 22, 2003. Chapter 899 of the Acts of Assembly directed Corrections to issue a Request for Proposal for the procurement of a private prison management firm to operate Lawrenceville. Corrections must evaluate all bids based on cost, qualifications, and other relevant considerations. Corrections must compare the projected cost of operation by the private contractor with the projected cost of operation by the Corrections using its own employees and prepare a report of its findings. This report shall go to the Governor and Chairman of the Senate Finance and House Appropriations Committees. Upon review of the report, they will conclude whether Corrections will continue to contract the facility operations or operate the facility using Corrections employees.

### Information Systems

Corrections provides information technology services through 27 different applications and systems operating on a DEC VAX Cluster, an IBM Mainframe, NT servers, and personal computers. During fiscal 2001, Corrections began working on implementing an enterprise-wide system to replace, integrate, and web-enable the 27 applications/systems currently used at Corrections. The system, the Integrated Correctional

Information System (ICIS), has two parts: Offend Based Management System (OMS) and the Enterprise Resource Planning (ERP).

Corrections was working with a vendor, SAP, to develop the OMS although Corrections did not sign a contract to purchase the completed software. In fiscal year 2001, Corrections purchased 5,250 user licenses from SAP for financial, human resources, and manufacturing software at a cost of \$4 million. Corrections has delayed the implementation of these modules because of budget constraints that do not allow Corrections to pay for the modification of the software and acquire the necessary hardware and networks. The total cost of implementing the system with hardware has an estimated cost of \$90 million. In the meantime, Corrections will continue to pay the annual maintenance fee of \$680,000.

## **INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS**

### **Strengthen Information Security Plan**

Our review of Corrections' information security program found the program is incomplete and does not meet the requirements of Commonwealth of Virginia Information Technology Resource Management Standard SEC2001-01.1. This standard, established by the Department of Technology Planning, requires agencies establish an information technology security program and sets forth the information required. Also, we found the information systems operation and security policies, procedures, and standards that should grow from a fully developed information security program are incomplete. Missing policies or procedures include, but are not limited to a comprehensive policy on information security, a firewall policy, an incident response procedure, and a policy on exceptions to the established information security policies.

Corrections should develop its comprehensive information security program and, as part of the development process, ensure that it has in place adequate policies, procedures, and guidelines. The development of a comprehensive information security policy will help ensure the protection of critical or sensitive information about agency operations, inmates, or any other non-public information. Corrections should continue monitoring compliance with the program and related policies to ensure the effectiveness of those new requirements.

Corrections began the process of developing a comprehensive information security program with a risk assessment performed in the spring of 2002. Corrections used this risk assessment to develop a project plan with the goal of completing a comprehensive information security program. This project plan appropriately considered and detailed the required tasks; however, because of personnel turnover and shortages, the project is not progressing. We encourage Corrections to allocate the resources to continue its efforts and complete its information security program. Failure to develop and implement an information security program increases the probability that safeguards over critical agency operations and information are inadequate.

### **Follow Established Inventory Procedures**

Corrections staff did not follow established procedures when performing their materials and supplies inventory and commissary inventory. We observed inventories at four facilities and found the following issues:

- Three of four institutions had not developed institutional procedures specific to their operations in order to help eliminate confusion before, during, and after the inventory count.
- Staff at two of four institutions had access to the inventory records (bin cards) during the count and relied on them instead of physically counting the items. Corrections should ensure that staff physically count all items during inventory.
- One institution did not properly tag inventory to avoid duplicate counting.
- Three of four institutions did not adequately document count errors.
- Three of four institutions incorrectly counted damaged and obsolete inventory and did not properly mark the items down to net realizable value. One hundred percent of the facilities did not have procedures to deal with damaged or obsolete inventory.

- Corrections did not use employees independent from the commissary to perform commissary inventory counts.

Corrections risks misstating inventory when staff do not properly follow inventory policies and procedures. Corrections should ensure that employees understand and follow the policies and procedures for materials and supplies inventory and commissary inventory.

#### Properly Record Accounts Payable

Corrections incorrectly recorded four of twenty accounts payable vouchers tested. Three vouchers were not properly recorded as payable, while another voucher was incorrectly recorded as payable when it was not. As a result, Corrections understated their year-end accounts payable by \$66,025.

State agencies must record all vouchers processed in the months of July and August, with either a “P” or an “N” to indicate whether or not it is a payable at year-end. Corrections should improve procedures to ensure the proper identification and recording of all vouchers processed for the months of July and August.

#### Ensure Proper Recording and Tracking of Leases

Corrections needs to improve internal controls to ensure that staff properly record and track leases in accordance with Commonwealth Accounting Policies and Procedures. We found two out of twenty lease payments improperly recorded as capital lease payments rather than operating leases in the Commonwealth Accounting and Reporting System. Also, we found no record of three out of seventeen new capital leases on the Fixed Asset Account and Control System (FAACS).

Corrections should ensure that institution staff have adequate training and properly following Corrections’ procedures for leases and related payments.

February 25, 2003

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Corrections** and **Virginia Parole Board** for the year ended June 30, 2002. Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate audit report we have issued. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of the audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenue  
Expenditures  
Contract Management

Inmate Trust Funds  
Commissary Funds  
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and Corrections' "Annual Management Information Summaries Report."

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations."

Corrections has not taken adequate corrective action with respect to the previously reported findings entitled "Ensure Proper Recording and Tracking of Leases" and "Properly Record Accounts Payable." These findings are included in the section entitled "Internal Control and Compliance 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 report with the exception of the aforementioned finding.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 24, 2003.

AUDITOR OF PUBLIC ACCOUNTS

LCR:whb  
whb:45

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Richmond, Virginia

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Gene Johnson, Deputy Director

John Jabe, Deputy Director

Ted Link, Controller

Garey Conrad, Fiscal Director

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