

AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 1998, found:

- no material weaknesses in the internal control structure; however, we did find a certain matter that we consider a reportable condition;
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action with respect to audit findings reported in the prior year except as reported.

Corrections should establish preventive maintenance monitoring procedures. We discuss this finding in the section entitled "Internal Control Finding and Recommendation."

Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate status report we have issued.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

With respect to previously reported findings and recommendations on establishing preventive maintenance procedures, Corrections' has not taken adequate corrective action for the following:

Establish Preventive Maintenance Monitoring Procedures

Corrections does not have adequate procedures or resources to monitor and ensure each of its correctional facilities perform preventive maintenance procedures. The Buildings and Grounds (B&G) Superintendents perform and manage preventive maintenance and record keeping functions entirely at each facility. Several B&G Superintendents stated that they do not perform preventive maintenance on a regular basis, and one Superintendent indicated they perform only 5percent of the scheduled preventive maintenance. Further discussion revealed that preventive maintenance is performed only when time allows and not on a scheduled timetable due to limited resources.

In addition, our audit revealed that for fiscal year 2000, Corrections has allocated \$150,000 to purchase hardware and software and to upgrade the Total Maintenance Software package without conducting an institution by institution review to determine if required resources are available. Acquiring and reserving the funds is an important part of the process; however, Corrections should perform a detailed review to establish the needs of the Building and Grounds departments and the ongoing maintenance requirements before deciding upon and implementing a system.

Implementation of a system in environments where maintenance requirements and resources are unknown may not be conducive to a successful Preventive Maintenance Program. Without adequate resources, facilities could continue to ignore and not perform preventive maintenance timely.

RECOMMENDATION

Corrections should establish procedures to monitor and ensure the adequacy of preventive maintenance. Corrections should also determine the necessary level of preventive maintenance and pursue funding to support that level. Given the vast array of maintenance requirements at each institution, only a well designed plan, and the resources to implement the plan, could begin to address the preventive maintenance needs at each facility. Management should perform a review and gain an understanding of the maintenance needs and the available resources at each facility prior to committing funds for the implementation of a software package.

In response to our recommendation, management has initiated an institution by institution review. Management intends to evaluate the resources needed at each institution to fully implement a preventive maintenance system. Management also intends to distribute a questionnaire to each facility to gain an understanding of which preventive maintenance software package would best fit their needs. Once all this information is compiled, a representative group of Buildings and Grounds superintendents will evaluate the responses from the questionnaires in order to choose the software which would best fit the needs of all facilities statewide.

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 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.

During fiscal year 1998, Corrections incarcerated an average daily population of 24,497 inmates in 23 major correctional centers, two reception and classification centers, one treatment center, and 18 field units. Corrections is currently in the process of reclassifying the security level of inmates from a three-tier classification of minimum, medium, and maximum security to six levels of institutional classification. The new security classifications identified as Level 1 through Level 6 will be based on criteria which includes security risk, level of supervision required, and medical and psychological needs. Factors in determining security risk include the type of crime, the length of the sentence, and the inmate's prior criminal history. Corrections anticipates that the new security classification assessments will be complete by the end of fiscal year 1999.

Corrections' Division of Community Corrections also incarcerated approximately 470 inmates in alternative programs, including three detention centers, two diversion centers, and a boot camp. In addition, it supervised approximately 36,320 probationers and parolees. Community Corrections operates with 41 Probation and Parole Districts and 523 Probation Officers accounting for over 10% of total department expenditures. In addition, the Community Corrections' Local Facilities Unit is Corrections' liaison with local and regional jails and lockup throughout the Commonwealth.

Corrections administers operations through a central administrative agency, two central divisions, and four regional offices. Corrections also operates an academy for staff development. During fiscal year 1998, Corrections employed approximately 11,200 individuals. The following schedule compares selected operating statistics for the fiscal years ended June 30, 1995, 1996, 1997, and 1998.

	Fiscal Year 1995	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998
Total Operating Budget (in millions)	\$ 476.9	\$ 509.4	\$ 527.8	\$ 573.3
Average Daily Inmate Population	21,690	24,104	24,842	24,967
Average Annual Cost Per Inmate	\$ 16,934	\$ 16,590	\$ 16,234	\$ 17,253

OPERATING FINANCIAL INFORMATION

For the year ended June 30, 1998
(excludes Virginia Correctional Enterprises)

GENERAL FUND APPROPRIATIONS AND EXPENSES

Program	Appropriations	Expenses
<u>Division of Institutions:</u>		
Secure confinement	\$ 261,457,159	\$ 258,840,900
Administrative and support services	193,178,349	186,958,326
Classification services	5,839,942	5,838,690
Agribusiness	5,380,330	5,380,291
Total	465,855,780	457,018,208
<u>Division of Community Corrections:</u>		
Probation and re-entry services	42,398,720	42,376,988
Administrative and support services	2,227,962	2,227,962
Community based custody	13,639,871	13,662,442
Confinement and custody research, planning and coordination	170,499	169,915
Financial assistance for confinement in local facilities (1)	1,158,019	-
Total	59,151,202	57,968,813
<u>Central Administration:</u>		
Administrative and support services	26,676,285	26,671,347
Criminal justice training, education, and standards	2,919,029	2,918,836
Confinement and custody research, planning and coordination	1,086,149	1,086,066
Vending facilities, snack bars, and cafeterias	488,598	488,463
Total	31,170,061	31,164,847
Agency Total	\$ 556,177,043	\$ 546,151,733
<u>Virginia Parole Board:</u>		
Probation and re-entry services	\$ 770,115	\$ 769,779

(1) Corrections disburses financial assistance to local facilities once the facility is completed. However, none of local facilities budgeted to receive assistance were completed during fiscal year 1998.

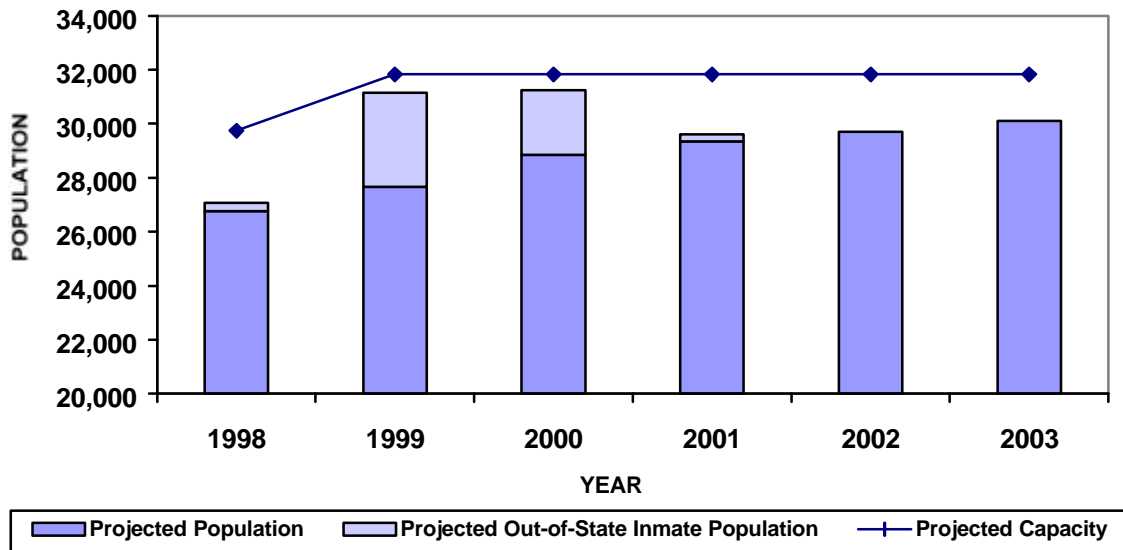
In addition to general funds noted above, Corrections spent non-general funds totaling \$7,377,084 for operations during the fiscal year. Of these non-general funds, approximately \$3.6 million is federal grant funds and \$3.7 million is special funds that are restricted to specific programs and projects such as the special program with the Department of Juvenile Justice to house juveniles sentenced as adults at the Southampton Reception and Classification Center. This special program accounts for \$3.2 million of the special funds during the fiscal year.

PROJECTED 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 Wallen's 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 have not met these forecasts. This is due to an unexpected drop in the crime rate, which has continued since 1994. Therefore, Corrections has significantly reduced future inmate population projections to reflect the current trends. The following graph compares projected future inmate population to capacity.

PROJECTED PRISON POPULATION AND CAPACITY



Source: Department of Corrections Inmate Population Projections (less inmates in local jails at 6/30/98).
Department of Corrections Master Plan – Institution Capacity (includes double bunking of inmates).

As the graph illustrates, Corrections will have excess capacity for at least the next five years. To address this issue, Corrections is under contract to house inmates from other states and the District of Columbia. The out-of-state inmates housed in Virginia prisons are included in the graph above. Additional details concerning out of state inmates are included in the following section entitled "Housing Out-of-State Inmates."

Maximum Security Correctional Centers:

	Powhatan	Southampton	Mecklenburg	Notoway	Buckingham	Augusta	Keen Mountain	Greenville	Total All Maximum Facilities
Average Daily Population	869	594	342	1,301	958	1,129	851	2,835	8,879
Operating Expenses	\$ 25,514,710	\$ 12,831,404	\$ 13,632,028	\$ 21,983,660	\$ 17,547,243	\$ 18,775,322	\$ 13,962,496	\$ 48,558,408	\$ 172,805,271
Depreciation Expense	457,818	82,626	373,778	855,256	876,201	779,527	1,119,990	2,727,837	7,273,034
Total Operating	25,972,528	12,914,030	14,005,806	22,838,916	18,423,444	19,554,849	15,082,486	51,286,245	180,078,305
<u>Other Expenses</u>									
Debt Service	-	-	117,010	343,809	1,868,951	-	4,637,930	11,502,167	18,469,867
Maintenance Reserve	60,157	48,909	76,654	6,406	213,595	9,948	-	-	415,668
Overhead	378,111	258,455	148,808	566,078	416,835	491,239	370,279	1,224,835	3,854,639
Education	549,303	744,591	-	491,275	523,053	337,757	374,899	1,153,978	4,174,856
Total Other Expenses	987,570	1,051,955	342,471	1,407,568	3,022,435	838,944	5,383,107	13,880,979	26,915,030
Total Expenses	\$ 26,960,098	\$ 13,965,986	\$ 14,348,277	\$ 24,246,483	\$ 21,445,879	\$ 20,393,793	\$ 20,465,594	\$ 65,167,224	\$ 206,993,335
<u>Per Capita Expenses</u>									
Operating	\$ 29,888	\$ 21,741	\$ 40,953	\$ 17,555	\$ 19,231	\$ 17,321	\$ 17,723	\$ 18,090	\$ 20,281
Other	1,136	1,771	1,001	1,082	3,155	743	6,326	4,896	3,031
Total Per Capita Expenses	\$ 31,024	\$ 23,512	\$ 41,954	\$ 18,637	\$ 22,386	\$ 18,064	\$ 24,049	\$ 22,987	\$ 23,313
<u>Per Diem Expenses:</u>									
Operating	\$ 81.88	\$ 59.56	\$ 112.20	\$ 48.10	\$ 52.69	\$ 47.45	\$ 48.56	\$ 49.56	\$ 55.57
Other	3.11	4.85	2.74	2.96	8.64	2.04	17.33	13.41	8.30
Total Per Diem Expenses	\$ 85.00	\$ 64.42	\$ 114.94	\$ 51.06	\$ 61.33	\$ 49.49	\$ 65.89	\$ 62.98	\$ 63.87

Medium Security Correctional Centers:

	Brunswick	Deep Meadow	Deerfield	Dillwyn	Indian Creek	Haynesville	Coffeewood	Lunenburg	Total All Medium Facilities
Average Daily Population	993	919	503	993	1,035	1,179	1,126	1,126	7,874
Operating Expenses	\$ 19,671,361	\$ 11,461,399	\$ 8,513,316	\$ 13,611,097	\$ 14,799,548	\$ 16,303,370	\$ 14,809,090	\$ 14,584,879	\$ 113,754,060
Depreciation Expense	623,894	229,233	421,135	711,334	619,429	675,538	860,230	838,896	\$ 4,979,689
Total Operating	20,295,255	11,690,632	8,934,451	14,322,431	15,418,977	16,978,908	15,669,320	15,423,775	118,733,749
<u>Other Expenses:</u>									
Debt Service	346,890	-	1,154,228	-	-	6,879,016	4,160,860	2,591,549	15,132,543
Maintenace Reserve	-	21,834	-	-	-	-	-	-	21,834
Overhead	432,064	399,866	218,860	432,064	449,904	512,995	489,934	489,934	3,425,621
Education	654,065	432,425	318,886	646,338	491,664	593,937	511,790	512,302	4,161,407
Total Other Expenses	1,433,020	854,125	1,691,974	1,078,402	941,568	7,985,948	5,162,584	3,593,785	22,741,405
Total Expenses	\$ 21,728,275	\$ 12,544,757	\$ 10,626,425	\$ 15,400,833	\$ 16,360,545	\$ 24,964,856	\$ 20,831,904	\$ 19,017,560	\$ 141,475,155
<u>Per Capita Expenses:</u>									
Operating	\$ 20,438	\$ 12,721	\$ 17,762	\$ 14,423	\$ 14,898	\$ 14,401	\$ 13,916	\$ 13,698	\$ 15,079
Other	1,443	929	3,364	1,086	910	6,773	4,585	3,192	2,888
Total Per Capita Expenses	\$ 21,881	\$ 13,650	\$ 21,126	\$ 15,509	\$ 15,807	\$ 21,175	\$ 18,501	\$ 16,889	\$ 17,967
<u>Per Diem Expenses</u>									
Operating	\$ 56.00	\$ 34.85	\$ 48.66	\$ 39.52	\$ 40.82	\$ 39.46	\$ 38.13	\$ 37.53	\$ 41.31
Other	3.95	2.55	9.22	2.98	2.49	18.56	12.56	8.74	7.91
Total Per Diem Expenses	\$ 59.95	\$ 37.40	\$ 57.88	\$ 42.49	\$ 43.31	\$ 58.01	\$ 50.69	\$ 46.27	\$ 49.23

Minimum Security Correctional Centers:

	VA Correctional Ctr for Women	Bland	James River	Staunton	St. Brides	Total All Minimum Facilities	All Major Correctional Centers
Average Daily Population	708	600	697	711	547	3,263	20,016
Operating Expenses	\$ 12,800,959	\$ 13,775,372	\$ 13,235,990	\$ 14,126,566	\$ 8,989,791	\$ 62,928,678	\$ 349,488,009
Depreciation Expense	178,416	287,300	710,177	209,372	141,133	1,526,398	13,779,121
Total Operating	12,979,375	14,062,672	13,946,167	14,335,938	9,130,924	64,455,076	363,267,130
<u>Other Expenses:</u>							
Debt Service	149,695	156,427	611,563	-	2,203,627	3,121,312	36,723,722
Maintenance Reserve	416,864	170,193	72,741	30,568	662,936	1,353,302	1,790,804
Overhead	308,058	261,066	302,837	309,363	238,005	1,419,329	8,699,589
Education	862,481	405,721	420,388	572,010	1,109,016	3,369,616	11,705,879
Total Other Expenses	1,737,098	993,407	1,407,529	911,941	4,213,584	9,263,559	58,919,994
Total Expenses	<u>\$ 14,716,473</u>	<u>\$ 15,056,080</u>	<u>\$ 15,353,696</u>	<u>\$ 15,247,878</u>	<u>\$ 13,344,509</u>	<u>\$ 73,718,635</u>	<u>\$ 422,187,124</u>
<u>Per Capita Expenses:</u>							
Operating	\$ 18,332	\$ 23,438	\$ 20,009	\$ 20,163	\$ 16,693	\$ 19,753	\$ 18,149
Other	2,454	1,656	2,019	1,283	7,703	2,839	2,944
Total Per Capita Expenses	<u>\$ 20,786</u>	<u>\$ 25,093</u>	<u>\$ 22,028</u>	<u>\$ 21,446</u>	<u>\$ 24,396</u>	<u>\$ 22,592</u>	<u>\$ 21,092</u>
<u>Per Diem Expenses:</u>							
Operating	\$ 50.23	\$ 64.21	\$ 54.82	\$ 55.24	\$ 45.73	\$ 54.12	\$ 49.72
Other	6.72	4.54	5.53	3.51	21.10	7.78	\$ 8.06
Total Per Diem Expenses	<u>\$ 56.95</u>	<u>\$ 68.75</u>	<u>\$ 60.35</u>	<u>\$ 58.76</u>	<u>\$ 66.84</u>	<u>\$ 61.90</u>	<u>\$ 57.79</u>

Housing Out-of-State Inmates

During fiscal year 1998, Corrections contracted with and began housing out-of-state inmates from Delaware, Iowa, Michigan, Vermont, and the District of Columbia (D. C.). With the exception of D. C.'s two and a half-year contract, the contracts are for one-year with a maximum of two one-year renewals. Corrections contracted with these governmental entities to house more than 3,479 out-of-state inmates dependent upon availability of institutional capacity. Currently, there are 3,488 out-of-state inmates in Virginia institutions. Based on the projected excess capacity, Corrections plans to renew all of the one-year contracts for FY 2000.

Corrections charges a Per Diem Rate of \$60.00 for medium-security inmates at Greenville, \$62.00 for medium/close-security inmates at Sussex II, and \$64.00 for maximum-security inmates at Red Onion and bills monthly. Corrections retains the portion of revenue to cover the direct costs of housing these inmates and transfers a portion to the Department of Correctional Education (DCE) for educational costs. The remainder goes to the Commonwealth's General Fund for debt service costs. Based on these Per Diem Rates and expected population projections, Corrections expects to earn over \$46 million in fiscal year 1999 with \$20 million transferred to the State and \$1.4 million transferred to DCE.

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

During fiscal year 1998, Corrections incarcerated an average daily population of 20,016 inmates in its 21 major correctional centers. The Fluvanna and Sussex I Correctional Centers are excluded from this comparison because they were only in operation a partial year, and the initial start-up costs would distort the comparison. These facilities operate at various security levels ranging from minimum to super-maximum.

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. In addition to the operating budget, Corrections also incurs other expenses for these facilities including debt service, maintenance reserve, inmate classification, and regional administration. 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, 8, and 9 compare operating and other costs for the major correctional centers.

As noted in the tables, the average per diem for operating costs at a maximum, medium, and minimum-security facility are \$55, \$41, and \$54 respectively. Operating costs do not include debt service, maintenance reserve, regional office administration, and education costs. The primary distinctions in cost variances are due to differences in security costs. Minimum-security facilities have the highest security costs because these prisons are the oldest and require the most manpower to secure and maintain. Maximum-security facilities house the most violent inmates with the highest security risk increasing their security costs.

Corrections contracted with a private vendor for the operation of a private medium-security prison, which we discuss in more detail in the section entitled "Prison Privatization." Corrections' contract with the vendor 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 4 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. For comparison purposes, we determined whether the Corrections' per diem and the private prison's per diem includes similar costs. 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 and depreciation expense. Neither of the per diems include education costs or debt service costs. However, the type of administrative costs included in the two figures is different.

Corrections includes only facility administration. The private facility includes administration for its headquarters as well as the facility. The private facility per diem is approximately \$6 to \$10 less than the average per diem operating cost for the medium-security facilities Corrections operates.

Corrections is currently evaluating the long-term cost and effectiveness of the privately operated facility. Additional details concerning this evaluation are in the following section entitled "Prison Privatization."

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. The facility, located in Lawrenceville, opened in March 1998. The contract requires Corrections to maintain the facility at a capacity of 1,425 inmates. Currently, Lawrenceville is housing about 1,530 Virginia inmates.

To ensure CCA meets all contract requirements, Corrections has a full-time Liaison Officer on-site at the Lawrenceville Correctional Center. The Liaison Officer monitors daily activities and coordinates issues and problems between Corrections and the prison staff. The Liaison Officer reports directly to the Regional Director for Corrections' Central Region, who provides additional oversight, much as he does for the Corrections' operated facilities in the Central Region. The Liaison Officer also works closely with Corrections' Private Prison Administrator, who deals with contractual issues and oversight at Corrections' central office. CCA has not been able to fully staff the medical unit of the facility according to contract requirements. As a result, Corrections is withholding liquidated damages from monthly payments to CCA for each instance of non-compliance. Currently, CCA's health services subcontractor, Correctional Medical Services, is trying to obtain the last required medical staff to be in compliance with the contract requirements.

Originally, the Department of Correctional Education (DCE) was to provide vocational training and academic education, which are functions and responsibilities of DCE. DCE decided to privatize the academic education and vocational training within Lawrenceville Correctional Center, and amended the original contract with CCA for CCA to begin providing educational services January 1, 1999. CCA is required to establish inmate work, vocational, and educational programs.

The contract requires CCA to obtain accreditation within two years of start-up from the American Corrections Association (ACA), a national private non-profit organization that establishes standards for correctional institutions. Corrections' own facilities are not ACA accredited, but Corrections has its own institutional standards for all Virginia state-operated facilities. Some Corrections facilities can not be ACA accredited because they can not meet all of the accreditation standards. Specifically, Corrections' older facilities can not meet the construction requirements.

As a result of a prior year audit recommendation and a requirement of the 1999 Acts of the General Assembly Chapter 935, Corrections is currently evaluating the long-term cost and effectiveness of the privately-operated facility. The evaluation will 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.

As part of this evaluation, Corrections will assess whether they can use design features and operating procedures used by the private facility to reduce their operating costs without compromising security and public safety. Corrections is starting to implement some of cost-saving strategies already identified at Lawrenceville. These strategies include not manning watch towers twenty-four hours a day at some facilities and reducing the amount of food supply storage from thirty to seven days.

INFORMATION SYSTEMS

Corrections provides information technology services through 27 different applications/systems on three different platforms including the DEC VAX Cluster, an IBM Mainframe, and personal computers. The use of various operating systems and databases has made integration of the 27 applications and systems impossible. Corrections provides electronic mail and office support functions through the network on the DEC hardware at the Central Office. This forces all traffic to come and go through the Central Office, even when the message is going between staff located in the same institution.

Corrections is currently soliciting for the development of an Integrated Corrections Information System (ICIS) that will replace or integrate all of the 27 applications/systems. In connection with the development of the new system, Corrections plans to replace the current network hardware. The implementation of the new system and network will occur in phases. Corrections plans to begin installation of the new network in July 1999, and implementation of ICIS over a three to five year period.

Year 2000

During 1999, Corrections is concentrating on fulfilling the Century Date Change Initiative requirements. Their focus is on ensuring that all mission critical vendors have Y2K compliant systems and will be able to deliver goods to Corrections after the first of the year. Corrections' Y2K Program Office has completed a 1999 Continuance Plan Statement of Work to ensure they meet this requirement.

May 11, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
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, 1998. Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate status report we have issued. We conducted our audit in accordance with generally accepted government auditing standards and included such test of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review Corrections' internal control structure, test its compliance with applicable laws and regulations, and evaluate the accuracy of financial transactions on the Commonwealth Accounting and Reporting System. We also determined the status of audit findings contained in our prior year report.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Corrections' 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:

Fixed Assets	Capital Outlay
Contract Management	Inmate Trust Fund
Expenditures	Automated Systems
Privatization	Out-of-State Inmates

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Corrections' policies and procedures 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.

Management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We found that Corrections properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Corrections 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 the "Agency Background and Financial Information" section of our report came directly from the Commonwealth Accounting and Reporting System and Corrections' "Annual Management Information Summaries Report."

We noted a certain matter involving the internal control structure and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Corrections' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition is discussed in the section entitled "Internal Control Finding and Recommendation." We believe the reportable condition is not a material weakness.

The results of our test of compliance disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Corrections has not taken adequate corrective action with respect to the previously reported finding entitled "Establish Preventive Maintenance Monitoring Procedures." Accordingly, we included this finding in the section entitled "Internal Control Finding and Recommendation." Corrections has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 8, 1999.

AUDITOR OF PUBLIC ACCOUNTS

DBC:whb
whb:57

DEPARTMENT OF CORRECTIONS
RICHMOND, VA

Ronald J. Angelone, Director

Gene Johnson, Deputy Director
Ed Morris, Deputy Director

Ted Link, Controller

Garey Conrad, Fiscal Director

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