

DEPARTMENT OF CORRECTIONS
and
VIRGINIA PAROLE BOARD
RICHMOND, VIRGINIA

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999

AUDITOR OF
PUBLIC
ACCOUNTS



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 1999, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- 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 audit finding reported in the prior year.

Our audit findings include the following:

- Establish Preventive Maintenance Monitoring Procedures
- Ensure Proper Administration and Management of Medical Services
- Enforce Contract Requirements
- Improve Commissary System Controls
- Update Commissary Policies and Procedures Manual
- Properly Perform Inventory Counts
- Improve Commissary Invoice Payment Processing Controls
- Properly Train and Staff Strike Force Members
- Control Community Corrections Local Funds Centrally
- Complete and Document Business Impact Analysis for the Individual Correctional Centers
- Determine Available Capacity Prior to Contracting for Out-of-State Inmates
- Properly Record Capital Lease Payments
- Develop Procedures to Update Leave Balances Timely and Ensure Accurate Year-End Reporting

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

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY BACKGROUND AND FINANCIAL INFORMATION	1-2
INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS	
Preventive Maintenance	3
Contracts	3-6
Commissary Operations	6-8
Institutional Security	8-9
Community Corrections	9-10
Information Systems	10
INMATE POPULATION AND CAPACITY	11-12
Housing Out-of-State Inmates	12
Comparison of Major Correctional Center Costs	12-19
Prison Privatization	20
OTHER DEPARTMENTAL ISSUES AND RECOMMENDATIONS	21
INDEPENDENT AUDITOR'S REPORT	22-24
AGENCY OFFICIALS	25

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 1999, Corrections had an average daily population of 26,408 inmates in 27 major correctional centers, two reception and classification centers, one treatment center, and 15 field units. Corrections completed 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 (lowest) through Level 6 (highest) will be based on criteria, which include security risk, level of supervision required, and medical and psychological needs. Factors in determining security risk upon entering the correctional system include the type of crime, the length of the sentence, and the inmate's prior criminal history. An inmate's behavior during incarceration can cause their transfer to an institution of a higher or lower level security.

Corrections' Division of Community Corrections also had approximately 710 inmates in alternative programs, including four detention centers, five diversion centers, and a boot camp for non-violent probationers. Community Corrections accounts for over 10 percent of total department expenses.

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 1999, Corrections employed approximately 12,318 individuals. The following schedule compares selected operating statistics for the past five fiscal years.

	Fiscal Year 1995	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999
Average Daily Inmate Population ¹	21,690	24,104	24,842	24,967	27,118
Average Annual Cost Per Inmate	\$16,934	\$16,590	\$16,234	\$17,253	\$18,590

¹ This ADP includes inmates in all forms of incarceration as described above.

OPERATING FINANCIAL INFORMATION

For the year ended June 30, 1999
(excludes Virginia Correctional Enterprises)

GENERAL FUND APPROPRIATIONS AND EXPENSES

<u>Program</u>	<u>Appropriations</u>	<u>Expenses</u>
<u>Division of Institutions:</u>		
Secure confinement	\$ 297,419,247	\$ 297,416,380
Administrative and support services	214,767,253	214,680,465
Classification services	6,600,139	6,598,983
Agribusiness	6,393,086	6,391,509
Total	<u>525,179,725</u>	<u>525,087,337</u>
<u>Division of Community Corrections:</u>		
Probation and re-entry services	45,435,479	45,386,704
Administrative and support services	2,122,042	2,121,187
Community based custody	20,644,817	20,590,324
Confinement and custody research, planning	180,112	178,388
Financial assistance for confinement	1,948,947	292,000
Total	<u>70,331,397</u>	<u>68,568,603</u>
<u>Central Administration:</u>		
Administrative and support services	30,413,636	30,408,126
Criminal justice training, education,	3,670,666	3,667,547
Confinement and custody research, planning	1,228,672	1,228,264
Vending facilities, snack bars, and cafeterias	573,346	573,340
Total	<u>35,886,320</u>	<u>35,877,277</u>
Agency Total	<u>\$ 631,397,442</u>	<u>\$ 629,533,127</u>
<u>Virginia Parole Board:</u>		
Probation and re-entry services	<u>\$ 792,720</u>	<u>\$ 720,119</u>

In addition to general funds noted above, Corrections spent non-general funds totaling \$26,810,644 for operations during the fiscal year. Of these non-general funds, approximately \$850,000 is federal grant funds and \$24.7 million is special funds used to operate three prisons and to reimburse other DOC agencies for expenses related to transportation and incarceration of out-of-state inmates, which we discuss in more detail in the section entitled "Housing Out-of-State Inmates." The remaining \$1.2 million is 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.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

PREVENTIVE MAINTENANCE

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' management is unable to plan, accumulate, budget, and schedule preventive maintenance at each facility. Corrections requires each of its facilities to have a documented preventive maintenance plan that addresses all of the facility's preventive maintenance needs. Based on each facility's plan, the Buildings and Grounds (B&G) Superintendents perform and manage preventive maintenance and record keeping functions at each facility. Several B&G Superintendents have stated that they do not perform preventive maintenance on a regular basis, and one Superintendent indicated they perform only 10 percent of the scheduled preventive maintenance. B&G Superintendents claim that due to a lack of resources, they are unable to properly perform the required preventive maintenance. Additionally, B&G Superintendents are not documenting their preventive maintenance needs or the resources needed to perform preventive maintenance. By not properly maintaining the institutions' equipment and capital assets, Corrections may have to repair and replace its equipment and capital assets more frequently. Repairing and replacing equipment and capital assets, instead of properly maintaining them, is more expensive, more time consuming, and reduces their useful life.

Corrections' management should document preventive maintenance requirements that are the same throughout the different institutions. Corrections' management should require that B&G Superintendents maintain required documentation to track all maintenance performed at each facility and the resources, including time and manpower, needed to complete each job. Without sufficiently documenting the resources required for maintenance, Corrections' cannot properly identify and prioritize specific resource needs at each facility.

Corrections' management should establish central maintenance monitoring procedures to ensure that the individual institutions properly maintain their facilities. Also, considering the expected time frame for implementing the Integrated Corrections Information System (ICIS), Corrections needs to determine the cost benefit of waiting until ICIS to provide facilities with an automated system. Without adequate resources, facilities could continue to ignore and not perform preventive maintenance.

In response to our prior year recommendation, management formed a committee to review the maintenance needs of each facility. As a result of this study, Corrections requested the funds necessary for the hardware and personnel to improve the state of preventative maintenance throughout the department in its 2000 budget requests. However, Corrections did not receive the funding for their request. With the proper documentation of the resources needed for maintenance and the effect of not maintaining the facilities, Corrections may have a better chance of receiving funding in the future.

CONTRACTS

Medical Services

Corrections entered into a "fee for service" contract with Correctional Medical Services, Inc. (CMS) on December 22, 1997 to provide medical services to inmates at Greenville, Fluvanna, and Sussex I. Corrections expanded the scope of the contract on July 27, 1998 to include Red Onion and Wallens Ridge and

December 9, 1998 to include Sussex II. CMS provides on-site medical, dental, and mental health services. CMS must follow selected standards of the National Commission on Correctional Health Care (NCCHC) that Corrections incorporated into the contract in addition to the institutional operating procedures. From July 1998 through December 1999, CMS received payments in excess of \$28 million. All institutions not included in the CMS contract provide their own medical services.

Corrections monitors the services and ensures that CMS provides adequate health care to inmates to minimize the state's legal liability. Each institution has a Contract Administrator and a Quality Assurance Nurse who monitor the performance of CMS and assess penalties for performance deficiencies. The on-site administrator at each institution performs monthly compliance reviews and compiles them quarterly to assess contract penalties. The following is a list of amounts deducted from the billings for the quarterly monetary penalty charges for contract noncompliance since November 1998, totaling \$910,302.

Corrections did not assess any penalties before November 1998, allowing the institutions and CMS time to get established and fill the necessary positions.

For the Quarter Ending	Fluvanna	Greenville	Red Onion	Sussex I	Sussex II	Wallens Ridge	Total
January 1999	\$ 69,900	\$ 33,584	N/A	\$13,750	N/A	N/A	\$117,234
April 1999	14,875	34,845	\$ 46,000	16,883	N/A	N/A	112,603
July 1999	18,393	11,870	44,250	16,647	\$ 74,900	N/A	166,060
October 1999	36,049	38,561	27,650	15,991	49,200	\$ 98,971	266,422
January 2000	<u>20,468</u>	<u>28,840</u>	<u>38,800</u>	<u>16,000</u>	<u>80,375</u>	<u>63,500</u>	<u>247,983</u>
Total	<u>\$159,685</u>	<u>\$147,700</u>	<u>\$156,700</u>	<u>\$79,271</u>	<u>\$204,475</u>	<u>\$162,471</u>	<u>\$910,302</u>

*Red Onion opened August 1998; Sussex II opened January 1999; Wallens Ridge opened April 1999.

Ensure Proper Administration and Management of Medical Services.

Corrections is not assessing severe enough penalties to ensure CMS' contract compliance. CMS is often in non-compliance with service standards in the contract. During the last year, Corrections has assessed penalties on CMS at different institutions for issues such as not triaging timely, not assessing the inmate's condition within 48 hours, and not giving inmates timely referral visits. It may be cheaper for CMS to incur the penalty than to comply with the contract. The penalty for an inmate not seeing a physician within 7 days of referral is only \$5,000 and there is no penalty for not having a dentist or optometrist. Physician's salaries are much greater than \$5,000 every quarter. Corrections should consider increasing penalties assessed on CMS to equal the cost of providing the service or find alternative options to ensure contract compliance.

CMS did not have a dentist for over three months and has never had an optometrist at Wallens Ridge. A waiting list for optometry services revealed over 130 inmates waiting for services. CMS could not hire an optometrist until the optometry equipment arrived at the end of March 2000. The individual institution must purchase the necessary equipment during the opening of new facilities. The Office of Health Services provided Wallens Ridge with the specifications for the necessary medical equipment, but the institution did not purchase or install the equipment timely. At Red Onion, CMS did not have a psychiatrist for over 2 months.

In addition, the Contract Administrator at Red Onion does not test for triaging compliance. Once he determined that CMS met the triaging requirement, he no longer tested that requirement. Ensuring consistent contract compliance for facilities contracted to CMS is Corrections only control to ensure that the inmates receive adequate medical care. Contract Administrators should use the audit schedules' that the Office of Health Services has provided to audit all standards of service every month.

Powhatan, Fluvanna, and Red Onion do not maintain source documents for sick call requests from inmates. Also, sick call request logs were not available at Fluvanna. The sick call request form is the inmate's original request to see a doctor and is the action that starts the medical process. The sick call request log documents all inmate requests for a single day and the order in which inmates receive service. The Commonwealth Accounting Policies and Procedures (CAPP) manual states that agencies should maintain records for at least three years. Institutions either did not use the sick call form at all or did not keep the date-stamped forms. Without this documentation, the auditor could not adequately determine the timely triaging of inmates to receive medical care. Maintenance of proper documentation is important to ensure Corrections receives the contracted services and demonstrates that inmates receive adequate medical care.

Corrections should provide incentive to ensure that CMS contracted facilities continuously meet all aspects of the contract. During the current process of renegotiating the contract with CMS, Corrections should review and consider changing the contract so they can impose liquidated damages equal to the service not provided or find alternative options to ensure contract compliance. Any new penalties should ensure that it is not less expensive for CMS to leave a position open rather than fill it. Institutions should also maintain all records and track both the sick call request forms and the inmate appointment log for at least three years.

Corrections does not require its institution-operated medical facilities to meet the same standards that they require for the contracted facilities. Corrections expects the contracted facilities to operate at a higher level of service with more specific requirements than the non-contracted facilities. For institution operated facilities, Corrections has established sick call procedures to ensure that a qualified professional sees inmates who request sick call within a reasonable, but not specific, timeframe. However, medical services under contract with CMS state that medical personnel will triage the request within 24 hours, see the inmate within 48 hours (72 hours on weekends) and, if referred, ensure a visit with a physician within one week. If Corrections expects CMS to meet specific requirements in relation to inmate visits and reviews, then Corrections should expect all correctional institutions to meet the same requirements. Corrections should consider the benefit of following the same standards at all correctional institutions and implement the standards accordingly.

Food Service

Corrections contracted with ARAMARK Corporation on February 5, 1999 to privatize food service operations at Sussex I. Corrections entered into this contract as a pilot program to determine if it is cost effective to privatize food service. The contract is for three years with the option to renew for three additional one-year periods. Corrections developed a methodology to review and compare the food service program between like facilities such as Sussex I (privatized) and Sussex II (institution operated). Corrections does not plan to extend the program until the completion of the study during fiscal year 2001.

A Contract Administrator is on-site as a liaison for the day-to-day operations and to monitor contract compliance. The Contract Officer, located in the Central Office, must approve all contracts and contract modifications.

Enforce Contract Requirements

The Contract Administrator improperly allowed ARAMARK to execute a contract modification without proper approval. ARAMARK proposed a change in the billing frequency from monthly to weekly, which the Contract Officer did not approve. The Contract Administrator allowed ARAMARK to begin a weekly billing cycle on April 1, 2000.

Contract requirements state that ARAMARK will bill Sussex I on a monthly basis. A weekly billing cycle is cumbersome and adds additional administrative expenses to the cost of the contract. The contractor should not alter, change, or amend the contract except by a written agreement executed by both parties.

The Contract Administrator needs to enforce contract requirements. The Contract Administrator should also review contract modifications timely to ensure modifications have approval before their implementation.

COMMISSARY OPERATIONS

The Commissary operations fund the purchase and resale of sundry products to the general inmate population. Generally, all institutions, field units, and detention centers have one or more commissary operations with a wide variety of products available for sale to inmates. Corrections uses the profits from the Commissary operations to purchase items that benefit the institution's inmates.

Implementation of a new Commissary inventory, sales, and accounting system began in 1998, increasing the use of automation in the commissaries. The old system was completely manual and labor intensive. The new system uses Wintegrity software, a type of point-of-sale technology. Wintegrity uses scanning technology and system-generated pricing on all sales to increase speed and accuracy. The implementation of the automated commissary system has allowed Corrections the ability to obtain information and realize operational efficiencies that were not possible in a completely manual environment. The Commissary system accounts for inventory on a perpetual basis using point-of-sale. The new system also eliminates the former weaknesses inherent in the manual process by providing current inventory counts of any item in stock.

Management implemented the new Commissary system at 11 institutions: Sussex I, Sussex II, Fluvanna, Red Onion, Wallens Ridge, Deep Meadow, Brunswick, Keen Mountain, Southampton, Augusta, and Deerfield. Since the commencement of the Commissary system project, newer versions of the software are available. Management is installing the newer versions of Wintegrity and Peachtree to the sites that had the original installations before implementation at additional institutions.

The Wintegrity system has modernized Corrections' commissaries and increased productivity and efficiency. We encourage the continuation of the automation and re-engineering process. The following are some issues we identified to enhance the Commissary system's capabilities.

Improve Commissary System Controls

An Internal Audit review and our audit identified numerous issues with the new Commissary system. The Commissary system includes Wintegrity, which captures the daily commissary operations, and Peachtree accounting software. Wintegrity records the original transactions including purchases to replenish stock and

sales to inmates. Peachtree has the general ledger and generates the financial statements and vendor checks. These two software packages do not exchange information. Commissary employees must manually enter transactions that originated in Wintegrity into Peachtree. This manual intervention in an automated environment increases the risk for errors. Corrections is working with the software vendor to provide the exchange of accounting information from Wintegrity into Peachtree.

Corrections does not have adequate security over the Commissary system. The system allows unique logons and passwords to limit security access rights and to track accountability. However, too many employees have full administrative access, and Financial Systems staff are all using the same logon. Proper separation of duties does not exist among commissary operations since Commissary Managers record price increases and enter inventory adjustments. Also, Corrections does not have controls to identify or monitor price changes or inventory adjustments.

Corrections' Central Office receives monthly commissary financial reports from each institution. Management relies on the financial information submitted from the institutions to make management decisions. Correction of these problems is important to ensure management makes decisions based on accurate information.

Management should continue to work with Internal Audit to correct all issues identified by Internal Audit, including those discussed above. Management should also focus on correcting the critical issues before implementing the system at other institutions.

In response to the recommendations, management has established and restricted systems access for Wintegrity, established separate Wintegrity logons for Financial Systems at Central Office and intends to continue to setup and include functionality security restrictions for Peachtree with the implementation of the newest version.

Update Commissary Policies and Procedures Manual

With the implementation of the new Commissary system, Corrections needs to update and revise its written policies and procedures supporting many of its financial functions. The audit found differences in institutional procedures, since institutions did not have uniform policies or procedures to follow during the automation of the commissary operations.

Three of the four institutions we reviewed use the new automated Commissary system. Red Onion and Wallens Ridge did not know how to print the physical inventory forms from the Wintegrity system without the merchandise quantities for several months. Institutions have not received adequate training on how to operate the system. An internal audit review conducted in March 2000 also identified a lack of staff training.

The Commissary Policies and Procedures Manual requires all commissaries to prepare and sign worksheets or attachments no longer needed with the automated process. The system has either eliminated or replaced these worksheets with other automated processes not in the manual.

Corrections management recognized the importance of policies and procedures and developed an interim process for use during implementation. The plan relies on the old policies and procedures manual and management issues Project Bulletins to document policies and procedures that differ from existing ones and provide system suggestions, solutions, and warnings as they develop. Once Corrections fully implements the system, they plan to compile all of this information and completely update the policies and procedures manual. However, Corrections did not begin this process until March 2000 and has issued only three Project Bulletins addressing defragging procedures, end of the day procedures, and inventory procedures.

Corrections should develop written policies and procedures to support the new Commissary system. Institutions should receive timely written communication of changes to the Commissary Policies and Procedures due to the automation process to minimize errors and inconsistencies. Management should also ensure employees receive sufficient initial and follow-up training to operate the new system.

Properly Perform Inventory Counts

Commissary employees are doing the inventory counts at Powhatan, Red Onion, and Wallens Ridge and are not following the proper counting procedures at Fluvanna, Powhatan, and Wallens Ridge. Wallens Ridge and Red Onion opened during the period under audit without the full complement of trained commissary staff.

The Commissary Policies and Procedures Manual states that the Warden/Superintendent or designee should select two employees, both independent of the commissary operation, to take a physical inventory. The Commissary Manager should only observe the count and answer questions. The manual further states that, the employees performing the physical inventory should initial their activity on each page, and each individual who participated in the inventory process must sign the Inventory Certification. It does not appear that employees involved in the inventory counts understand or are following the Manual.

When commissary employees participate in the counting of inventory there is a greater risk for fraud and errors. Employees involved in the inventory count should initial and sign all required forms to document the participants and to ensure proper segregation of duties and independence. Management needs to ensure that employees independent of Commissary operations perform the inventory count. Management should also ensure employees comply with Commissary Policies and Procedures.

Improve Commissary Invoice Payment Processing Controls

Commissary personnel are not properly processing invoice payments. At Wallens Ridge and Red Onion, the accountant and the business manager were approving the commissary invoices for payment and signing the checks for fifty percent of disbursements tested. At Fluvanna and Wallens Ridge, Commissary personnel paid 2 out of 20 invoices tested seven to fourteen days late. Wallens Ridge and Red Onion opened during the period under audit without the full complement of trained commissary staff.

Institutions designate five different employees to sign commissary checks requiring two signatures on each check. The Commissary Policies and Procedures Manual states that invoices must be paid within 30 days from the receipt of merchandise or invoice, whichever occurs later. If Commissary personnel do not pay invoices within the 30 days, the vendor may consider them late, and the state may incur late fees.

Management should ensure that employees approving invoices do not sign the checks. Management should also ensure that it pays invoices within 30 days in accordance with policies and procedures and state regulations. Management should ensure that staff at new institutions receive training.

INSTITUTIONAL SECURITY

In fiscal 1999, Corrections had 7,921 security officer positions and spent \$328,206,499 for officer salaries of which only \$4,011,367 (1.2 percent) was for overtime. Security Officer salaries represent more than 50 percent of total agency expenses. Security officer staffing is an ongoing challenge, and Corrections has difficulty recruiting and maintaining competent officers to staff the correctional institutions statewide. As part of the security system at each institution, there are two ten-member Strike Force teams. The Strike Force members respond to emergencies such as power outages, hurricanes, violent storms, riots, and other emergency situations.

Properly Train and Staff Strike Force Members

Corrections relies on its Strike Force teams to respond to emergencies, and the teams are an integral part of each institution's security system. Corrections has had difficulty staffing and training Strike Force teams because of self-imposed overtime restrictions. At four institutions tested, forty-two percent (42%) of the Strike Force Team members did not receive the required amount of training and thirteen percent (13%) of the members tested had not received the original Riot Response Training.

Since personnel costs represent the single largest operating expense, management monitors all overtime use by the facilities and questions any fluctuation in usage. Facilities are unwilling to use overtime in basic situations when they do not have the officers available to both properly staff the security posts and allow individuals to attend training. Therefore, individuals miss training opportunities so management can keep overtime at a minimum. In addition, institutions only offer some training classes sporadically making it difficult for officers to make up missed training.

Operating procedures require each institution to have at least two 10-member Strike Force Teams. Each active member must have an initial 40 hours of Riot Response Training and receive at least six additional hours of training every quarter. Members of Institutions with American Corrections Association (ACA) accreditation also need to receive a minimum of 40 hours additional training annually, 16 of which must be emergency training, and have a year of Officer experience prior to eligibility. Without this training, ACA accredited facilities could jeopardize their accreditation.

Management should balance its needs to control overtime with the requirement to have competent Strike Force Teams. All correctional officers, especially Strike Force Team members, need adequate training to properly act and respond to the varying demands of emergency situations.

COMMUNITY CORRECTIONS

Community Corrections operates 42 Probation and Parole Districts with 536 Probation Officers supervising approximately 36,738 probationers and parolees. In addition, the Community Corrections' Local Facilities Unit is Corrections' liaison with local and regional jails and lockups throughout the Commonwealth. The Court or the Parole Board sets probation, parole, and special conditions such as home monitoring. Probationers follow a four to six month program, with an emphasis on obtaining a GED, attending Substance Abuse and Life Skills programs, and providing work opportunities at the facility and in the local communities.

Control Community Corrections Local Funds Centrally

Corrections' management does not review, approve, or monitor supplemental salary increases for employees at the probation and parole Districts. At least two of Correction's probation and parole districts, Alexandria and Arlington, receive local government funding to supplement employee salaries and cover additional expenses. These two districts did not withhold income, social security, and Medicare taxes from the supplemental salary payments. Also, the Alexandria Probation and Parole office improperly reported fiscal year 1999 expenses to the city government.

The Code of Virginia, § 53.1-147, allows localities to supplement the fixed compensation of state probation and parole officers. The Chief Probation and Parole Officers review and approve the budget, including the supplemental pay increase for their own salary, before submitting the budget to the local government. Probation and parole office employees are receiving supplemental salary increases between \$500 and more than \$9,500 a year without the proper approval of upper management.

The Alexandria Probation and Parole office is using the local government funds for expenses other than salary supplements. The Alexandria Probation and Parole office spent \$394 on food and refreshments, \$299 for training, and \$2,932 on carpeting, outside of the approved budget. Alexandria Probation and Parole office did not report these expenses to the City of Alexandria.

Corrections Central Office needs to establish procedures to ensure proper control of all local funds. Corrections Central Office should review and approve supplemental pay, local fund budgets, and expense reporting. Corrections should either process all supplemental pay through the CIPPS payroll system or require the locality to process all supplemental pay through its payroll system to ensure the proper withholding of income, social security, and Medicare taxes. Corrections should also determine whether any other probation and parole offices are receiving local funds.

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. The use of various hardware, operating systems, and databases has made integration of the 27 applications and systems impossible.

Corrections is working to develop and obtain an Integrated Corrections Information System (ICIS) that will replace or integrate all of its 27 applications and systems. Corrections requested funding for ICIS for fiscal 2001, but did not receive funding. Corrections plans to continue ICIS by funding the project from its operating budget and, possibly, out-of-state inmate funds. Corrections is presently negotiating with implementation service firms, who are bidding for the application and database hosting functions for ICIS.

Corrections plans to use contractors for the entire ICIS development and implementation. In connection with the development of the new system, Corrections plans to also replace the current network hardware. Ideally, implementation of the new system and network will begin in early 2001 and will last over a three to five-year period. Corrections estimates the cost of development and implementation of the system to be between \$30 and \$50 million. In addition, Corrections estimates \$20 million to replace the network hardware. Once operational, Corrections plans to contract out the operation and maintenance of the system at an estimated annual cost of \$6 to \$12 million.

In June of 1999, Corrections' consultant, Metro Information Services, performed the most recent Business Impact Analysis (BIA) for the Central Office. The report identifies the critical business processes within each Unit, the impact resulting from the loss or prolonged interruption of the critical processes, the interdependencies of each Unit, and recommendations for the recovery of each Unit. The report does not include a BIA for the individual correctional institutions.

Complete and Document Business Impact Analysis for the Individual Correctional Institutions

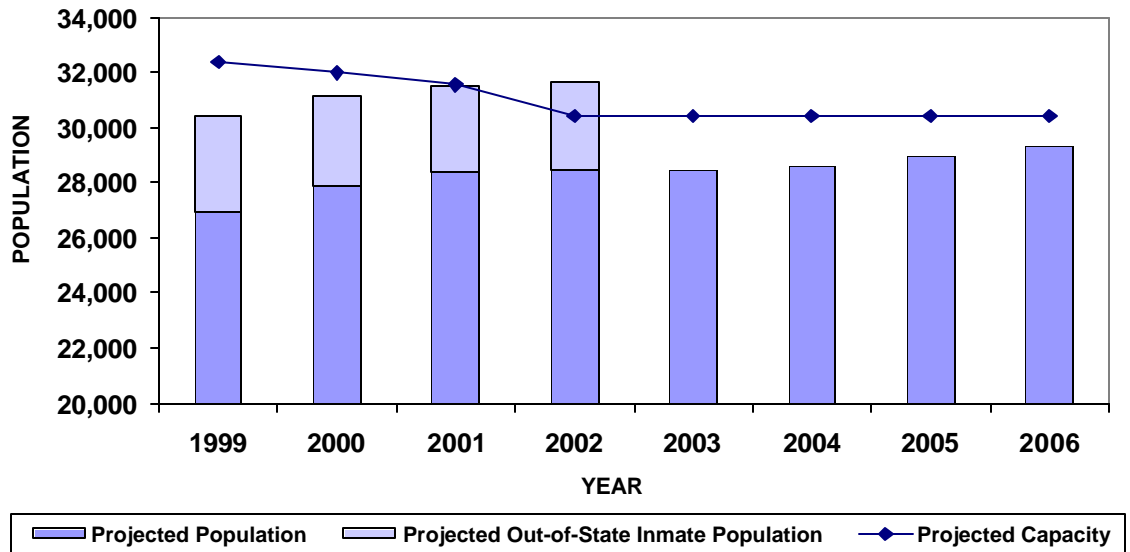
Corrections' Business Impact Analysis does not cover the individual correctional institutions. COV ITRM Standard 95-1, issued by the Council on Information Management, requires that each agency conduct an Impact Analysis throughout the agency to identify an organization's sensitive information systems. The Impact Analysis must provide reasonable assurance that it has identified all potentially sensitive information, regardless of where it resides. Without a thorough Business Impact Analysis, Corrections may not identify all of its sensitive information systems, including their telecommunications, mainframes, and client/server technologies, preventing Corrections from properly securing these systems. Although Corrections has prepared a thorough Impact Analysis for the Central Office, it should complete an Impact Analysis for each individual correctional institution or incorporate the information into the Central Office Impact Analysis.

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. 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, including out-of-state inmates, to capacity.

PROJECTED PRISON POPULATION AND CAPACITY



Source: Department of Corrections State Responsible Inmate Population Projections
Department of Corrections Master Plan – Institution Capacity

As the graph illustrates, Corrections will have excess capacity for Virginia inmates for at least the next six years. Corrections has however projected more out-of-state inmates than they will have excess capacity in fiscal years 2001 and 2002 as Corrections intends to decrease capacity by reducing double bunking. Additional details concerning out-of-state inmates are included in the following section entitled “Housing of Out-of-State Inmates.”

Determine Available Capacity Prior to Contracting for Out-Of-State Inmates

Corrections may not have the capacity to house all of the anticipated 3,159 out-of-state inmates in fiscal years 2001 and 2002. The difference in Corrections’ Master Plan capacity and Population Projections identifies a shortage of 177 and 1,462 beds in fiscal years 2001 and 2002, respectively. In the past, Corrections double bunked Virginia inmates to compensate for a bed shortage. To date, Corrections has not eliminated the double bunking. However, Corrections’ current Master Plan reduces this double bunking by

450 inmates in fiscal year 2001 and 1,143 inmates in fiscal year 2002. This reduction of double bunking combined with the anticipated number of out-of-state inmates results in a shortage of beds. Corrections relies on the out-of-state inmate revenues to cover its operating expenses and transfers to the General Fund, including anticipated revenues of \$67,647,952 in fiscal 2001 and \$63,840,000 in fiscal 2002. Corrections and the General Assembly will have to decide whether to not reduce double bunking and continue to house the anticipated 3,159 out-of-state inmates or reduce double bunking as outlined in the Master Plan and house fewer out-of-state inmates.

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. In fiscal year 2000, Michigan and Iowa have pulled out all their inmates and cancelled their contracts with Corrections. Corrections has added contracts with New Mexico, Connecticut, and the Federal Bureau of Prisons. At March 31, 2000, there were 3,356 out-of-state inmates in Virginia institutions.

Corrections charges a daily rate of \$60 for medium-security inmates, \$62 for medium/maximum-security inmates, and \$64 for maximum-security inmates. Corrections is in the process of changing per diem rates based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). 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 the increased per diem rates and expected population projections, Corrections expects to earn over \$75 million in fiscal year 2000 with \$21 million transferred to the General Fund and \$600,000 transferred to DCE.

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

During fiscal year 1999, Corrections incarcerated an average daily population of 21,558 inmates in 23 of its major correctional centers. The Wallens Ridge, Red Onion, and Sussex II 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 14 through 19 compare operating and other costs for the major correctional centers.

As noted in the tables, the average per diem for operating costs range from \$38 to \$87 for the four levels of security with an average per diem of \$53 for all facilities. 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. Super-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 established 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 includes 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.

Corrections does not operate a facility that is comparable in size to the private prison. To make a reasonable comparison of the private prison’s per diem, we will use Corrections’ average operating per diem after excluding Greensville, Powhatan, Fluvanna, and the Virginia Correctional Center for Women. We have excluded these facilities because Greensville and Powhatan have major medical facilities and Fluvanna and VCCW are female institutions. The private prison does not have a major medical facility and only houses male inmates. After these exclusions, the private facility per diem is approximately \$20 to \$22 less than the average per diem operating cost of \$51 for Corrections’ facilities.

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.”

COMPARISON OF MAJOR CORECTIONAL CENTER COSTS

	Sussex I Correctional Center Security Level 5	Augusta Correctional Center Security Level 4	Buckingham Correctional Center Security Level 4	Fluvanna Correctional Center Security Level 4
Average Daily Population-FY99	960	1,135	951	775
<u>Operating Expenses</u>				
General Operating	\$ 19,639,644	\$ 16,749,831	\$ 15,415,501	\$ 14,622,535
Depreciation Expense	177,716	778,517	799,186	341,616
Medical Expense	2,314,292	2,251,254	1,907,332	4,823,667
Total Operating	22,131,652	19,779,602	18,122,018	19,787,818
<u>Other Expenses</u>				
Debt Service	4,128,116	-	1,868,483	2,903,662
Maintenance Reserve	-	26,469	139,748	-
Overhead	568,675	672,340	563,344	459,087
Education	363,586	375,297	447,850	1,045,745
Total Other Expenses	5,060,376	1,074,107	3,019,425	4,408,494
Total Expenses	\$ 27,192,028	\$ 20,853,709	\$ 21,141,443	\$ 24,196,311
<u>Per Capita Expenses</u>				
Operating	\$ 23,054	\$ 17,427	\$ 19,056	\$ 25,533
Other	5,271	946	3,175	5,688
Total Per Capita Expenses	\$ 28,325	\$ 18,373	\$ 22,231	\$ 31,221
<u>Per Diem Expenses</u>				
Operating	\$ 63.16	\$ 47.75	\$ 52.21	\$ 69.95
Other	14.44	2.59	8.70	15.58
Total Per Diem Expenses	\$ 77.60	\$ 50.34	\$ 60.91	\$ 85.54

COMPARISON OF MAJOR CORECTIONAL CENTER COSTS

	Keen Mountain Correctional Center Security Level 4	Nottoway Correctional Center Security Level 4	Greensville Correctional Center Security Level 3	Powhatan Correctional Center Security Level 3
Average Daily Population-FY99	831	1301	2,954	826
<u>Operating Expenses</u>				
General Operating	\$ 13,185,769	\$ 20,103,635	\$ 42,523,904	\$ 19,361,949
Depreciation Expense	1,082,074	1,212,623	3,232,385	233,685
Medical Expense	1,566,229	2,074,925	7,878,258	6,683,923
Total Operating	15,834,072	23,391,182	53,634,547	26,279,557
<u>Other Expenses</u>				
Debt Service	4,636,822	343,395	11,083,574	-
Maintenance Reserve	6,812	44,678	-	421,754
Overhead	492,259	770,673	1,749,861	489,298
Education	396,182	646,193	1,289,128	610,115
Total Other Expenses	5,532,075	1,804,940	14,122,563	1,521,167
Total Expenses	\$ 21,366,147	\$ 25,196,122	\$ 67,757,111	\$ 27,800,724
<u>Per Capita Expenses</u>				
Operating	\$ 19,054	\$ 17,979	\$ 18,157	\$ 31,815
Other	6,657	1,387	4,781	1,842
Total Per Capita Expenses	\$ 25,711	\$ 19,367	\$ 22,937	\$ 33,657
<u>Per Diem Expenses</u>				
Operating	\$ 52.20	\$ 49.26	\$ 49.74	\$ 87.17
Other	18.24	3.80	13.10	5.05
Total Per Diem Expenses	\$ 70.44	\$ 53.06	\$ 62.84	\$ 92.21

COMPARISON OF MAJOR CORECTIONAL CENTER COSTS

	Southampton Correctional Center Security Level 3	Bland Correctional Center Security Level 2	Brunswick Correctional Center Security Level 2	Coffeewood Correctional Center Security Level 2
Average Daily Population-FY99	575	600	882	1105
<u>Operating Expenses</u>				
General Operating	\$ 12,364,010	\$ 12,851,813	\$ 17,007,955	\$ 13,756,565
Depreciation Expense	610,165	201,003	630,281	883,469
Medical Expense	927,942	1,825,247	2,419,047	1,944,385
Total Operating	13,902,116	14,878,063	20,057,282	16,584,419
<u>Other Expenses</u>				
Debt Service	-	152,961	346,473	4,121,240
Maintenance Reserve	63,828	49,506	7,807	-
Overhead	340,613	355,422	522,470	654,569
Education	740,906	447,384	664,349	649,877
Total Other Expenses	1,145,347	1,005,273	1,541,100	5,425,686
Total Expenses	\$ 15,047,463	\$ 15,883,336	\$ 21,598,382	\$ 22,010,105
<u>Per Capita Expenses</u>				
Operating	\$ 24,178	\$ 24,797	\$ 22,741	\$ 15,009
Other	1,992	1,675	1,747	4,910
Total Per Capita Expenses	\$ 26,170	\$ 26,472	\$ 24,488	\$ 19,919
<u>Per Diem Expenses</u>				
Operating	\$ 66.24	\$ 67.94	\$ 62.30	\$ 41.12
Other	5.46	4.59	4.79	13.45
Total Per Diem Expenses	\$ 71.70	\$ 72.53	\$ 67.09	\$ 54.57

COMPARISON OF MAJOR CORECTIONAL CENTER COSTS

	Deerfield Correctional Center Security Level 2	Dillwyn Correctional Center Security Level 2	Haynesville Correctional Center Security Level 2	Indian Creek Correctional Center Security Level 2
Average Daily Population-FY99	484	974	1181	944
<u>Operating Expenses</u>				
General Operating	\$ 8,148,441	\$ 12,384,201	\$ 14,597,944	\$ 13,629,104
Depreciation Expense	382,662	632,318	651,282	601,867
Medical Expense	674,837	1,859,419	2,006,351	1,428,899
Total Operating	9,205,941	14,875,939	17,255,577	15,659,870
<u>Other Expenses</u>				
Debt Service	1,137,302	-	6,846,560	-
Maintenance Reserve	-	-	37,144	-
Overhead	286,707	576,968	699,589	559,197
Education	342,884	540,690	539,025	503,096
Total Other Expenses	1,766,893	1,117,659	8,122,319	1,062,293
Total Expenses	\$ 10,972,834	\$ 15,993,597	\$ 25,377,896	\$ 16,722,164
<u>Per Capita Expenses</u>				
Operating	\$ 19,021	\$ 15,273	\$ 14,611	\$ 16,589
Other	3,651	1,147	6,877	1,125
Total Per Capita Expenses	\$ 22,671	\$ 16,421	\$ 21,488	\$ 17,714
<u>Per Diem Expenses</u>				
Operating	\$ 52.11	\$ 41.84	\$ 40.03	\$ 45.45
Other	10.00	3.14	18.84	3.08
Total Per Diem Expenses	\$ 62.11	\$ 44.99	\$ 58.87	\$ 48.53

COMPARISON OF MAJOR CORECTIONAL CENTER COSTS

	James River Correctional Center Security Level 2	Lunenburg Correctional Center Security Level 2	Staunton Correctional Center Security Level 2	St. Brides Correctional Center Security Level 2
Average Daily Population-FY99	705	1126	738	560
<u>Operating Expenses</u>				
General Operating	\$ 12,868,733	\$ 13,793,314	\$ 12,325,224	\$ 9,131,287
Depreciation Expense	690,299	847,998	183,630	224,408
Medical Expense	855,191	2,412,022	2,658,377	623,800
Total Operating	14,414,223	17,053,334	15,167,230	9,979,495
<u>Other Expenses</u>				
Debt Service	610,827	2,583,235		2,178,936
Maintenance Reserve	495,119	-	376,045	150,437
Overhead	417,621	667,009	437,169	331,727
Education	485,983	589,112	636,046	1,056,118
Total Other Expenses	2,009,550	3,839,355	1,449,260	3,717,218
Total Expenses	\$ 16,423,773	\$ 20,892,689	\$ 16,616,491	\$ 13,696,713
<u>Per Capita Expenses</u>				
Operating	\$ 20,446	\$ 15,145	\$ 20,552	\$ 17,821
Other	2,850	3,410	1,964	6,638
Total Per Capita Expenses	\$ 23,296	\$ 18,555	\$ 22,516	\$ 24,458
<u>Per Diem Expenses</u>				
Operating	\$ 56.02	\$ 41.49	\$ 56.31	\$ 48.82
Other	7.81	9.34	5.38	18.19
Total Per Diem Expenses	\$ 63.83	\$ 50.84	\$ 61.69	\$ 67.01

COMPARISON OF MAJOR CORECTIONAL CENTER COSTS

	Virginia Correctional Center for Women Security Level 2	Deep Meadow Reclassification Security Level 2	Mecklenburg Reclassification Security Level 2	TOTAL ALL MAJOR Correctional Centers
Average Daily Population-FY99	425	923	603	21,558
<u>Operating Expenses</u>				
General Operating	\$ 8,966,888	\$ 10,979,401	\$ 13,553,070	\$ 347,960,719
Depreciation Expense	153,494	229,501	467,653	15,247,829
Medical Expense	2,225,476	1,838,090	1,262,093	54,461,056
Total Operating	<u>11,345,858</u>	<u>13,046,993</u>	<u>15,282,816</u>	<u>417,669,604</u>
<u>Other Expenses</u>				
Debt Service	148,230	-	116,962	43,206,779
Maintenance Reserve	260	148,004	306,931	2,274,542
Overhead	251,757	546,758	357,199	12,770,312
Education	805,084	489,376	246,692	13,910,720
Total Other Expenses	<u>1,205,332</u>	<u>1,184,137</u>	<u>1,027,784</u>	<u>72,162,354</u>
Total Expenses	<u>\$ 12,551,190</u>	<u>\$ 14,231,130</u>	<u>\$ 16,310,600</u>	<u>\$ 489,831,958</u>
<u>Per Capita Expenses</u>				
Operating	\$ 26,696	\$ 14,135	\$ 25,345	\$ 19,374
Other	2,836	1,283	1,704	3,347
Total Per Capita Expenses	<u>\$ 29,532</u>	<u>\$ 15,418</u>	<u>\$ 27,049</u>	<u>\$ 22,722</u>
<u>Per Diem Expenses</u>				
Operating	\$ 73.14	\$ 38.73	\$ 69.44	\$ 53.08
Other	7.77	3.51	4.67	9.17
Total Per Diem Expenses	<u>\$ 80.91</u>	<u>\$ 42.24</u>	<u>\$ 74.11</u>	<u>\$ 62.25</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. The facility, located in Lawrenceville, opened in March 1998. The contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The average daily population for fiscal 1999 was 1,542. Currently, Lawrenceville houses approximately 1,572 Virginia inmates with 1,528 in the general population beds.

To ensure CCA meets all contract requirements, Corrections has a full-time Liaison Officer on-site. 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. Since the beginning of the contract in March 1998, CCA's health services subcontractor, Correctional Medical Services, 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. CCA is then withholding these liquidated damages from monthly payments to CMS. However, CMS cancelled its contract with CCA effective November 30, 1999 due to the liquidated damages CCA withheld. Although medical staffing has improved since CCA took over the responsibility, it is not yet in complete accordance 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 for CCA to begin providing educational services January 1, 1999. CCA established inmate work, vocational, and educational programs. DCE monitors the educational program requirements.

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' own facilities are not ACA accredited because they cannot meet all of the accreditation standards. Specifically, Corrections' older facilities cannot meet the construction requirements. However, Corrections has its own institutional standards for its facilities. CCA must also meet Corrections' institutional standards. Corrections performed an institutional compliance audit in March 1999 for Lawrenceville. Due to 63 deficiencies noted during the compliance audit, Corrections placed CCA on Probationary Certification. Currently, Lawrenceville has met Corrections' standards and is no longer on Probationary Certification.

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 its operating costs without compromising security and public safety. Corrections completed development of an evaluation methodology in October 1999. Currently, Corrections is collecting data for analysis with an expected report issuance date of October 2001.

OTHER DEPARTMENTAL ISSUES AND RECOMMENDATIONS

Properly Record Capital Lease Payments

Corrections is improperly recording capital lease payments as operating lease payments in the Commonwealth Accounting and Reporting System (CARS). Corrections has 116 capital leases in the Lease Accounting System (LAS) with total annual costs of \$2,718,648 for fiscal 1999. CARS only identified \$38,062 in capital lease expenditures for fiscal 1999, an understatement of \$2,680,586.

Fiscal personnel initially set up lease payments as operating lease payments until the Department of Accounts determines whether the lease is a capital or operating lease. Corrections fiscal personnel are not changing the expenditure coding once the Department of Accounts identifies a lease as capital.

The Commonwealth Accounting and Reporting System is the official accounting system for the Commonwealth. The legislature and other state agencies use CARS to obtain financial information to make decisions throughout the year. Therefore, it is imperative to accurately record transactions to ensure the proper classification of expenditures. Corrections should establish a procedure to review payments for leases to ensure proper identification of all coding for payments after the final classification of leases.

Develop Procedures to Update Leave Balances Timely and Ensure Accurate Year-End Reporting

Institutions are not updating leave balances in CIPPS promptly and are improperly reporting year-end leave liabilities. While Corrections has procedures requiring Human Resources to update leave balances in CIPPS upon receipt of leave slips, Corrections does not have procedures requiring employees to submit leave slips to Human Resources promptly. Of the institutions tested, Nottoway, Fluvanna, and Sussex II reported incorrect year-end liability balances as a result of improper leave records. Human Resources must record leave usage and accruals in the proper order to ensure adequate balances are available when employees use leave. Not maintaining accurate leave balances throughout the year could lead to incorrect reporting of leave liability at year-end.

Section 40105 Part 300, "Development of Internal Agency Procedures", of the Commonwealth Accounting Policies and Procedures Manual, requires each agency to establish its own procedures for processing leave transactions into CIPPS. The agency should establish internal cut-off dates for the processing of leave transactions so that the data entry operator will enter them into the system during the proper period.

Corrections should develop procedures requiring immediate submission of leave slips to Human Resources to ensure the timely update of leave balances. Corrections should also implement procedures to review leave liability reports submitted by institutions, including a review of the supporting documentation from the institutions to ensure liability reporting is accurate.

May 18, 2000

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

The Honorable Vince Callahan
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, 1999. 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 finding 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:

Fixed Assets	Capital Outlay
Contract Management	Inmate Trust Funds
Expenditures	Automated Systems
Privatization	Out-of-State Inmates
Commissary Funds	Community Corrections

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 sections entitled "Internal Control Findings and Recommendations," "Inmate Population and Capacity," and "Other Departmental Issues 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 sections entitled "Internal Control Findings and Recommendations" and "Other Departmental Issues and Recommendations."

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 Findings and Recommendations."

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 July 11, 2000.

AUDITOR OF PUBLIC ACCOUNTS

DBC:jld
jld:42

DEPARTMENT OF CORRECTIONS
RICHMOND, VA

Ronald J. Angelone, Director

Gene Johnson, Deputy Director
Ed Morris, Deputy Director

Ted Link, Controller

Garey Conrad, Fiscal Director

BOARD OF CORRECTIONS

Rufus Adkins
Donald Cahill
Roy A. Graeber
Carl V. Knickman

William E. Osborne
H. Jack Rose
Sarah E. Terry
Diane Davis-Wagner

Andrew J. Winston

PAROLE BOARD

John R. Alderman
Charles E. James, Sr.

G. Wayne Pike
Linda R. Pitman

Kent A.P. Smith