



# DEPARTMENT OF CORRECTIONS

## AUDIT OF SELECT CYCLES FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

Our audit of the Department of Corrections (Corrections), including the Virginia Parole Board, for the fiscal year ended June 30, 2019, included account balances and internal controls and compliance over the following areas:

- Payroll and fringe benefit expenses, including year-end leave liability, related personnel information reported in the Commonwealth's retirement benefits system, information system access over related information systems; and
- follow up on prior year findings entitled "Document Retirement Benefits Systems Reconciliation" and "Perform Annual Access Certifications for Information Systems."

Relative to the areas we tested, we found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's payroll system, the Commonwealth's accounting and financial reporting system, and the Commonwealth's retirement benefits system;
- proper reporting, in all material respects of year-end payroll information submitted to the Department of Accounts;
- five matters involving internal control and its operation necessary to bring to management's attention; and
- two instances of noncompliance with applicable laws and regulations that are required to be reported.

Management has not completed corrective action with regard to the prior findings we followed up on during the current audit. We did not review management's corrective action on prior year findings identified as deferred in the [Findings Summary](#). We will follow up on these findings in a future audit.

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## STATUS OF PRIOR YEAR FINDINGS

### **Improve Documentation and Timeliness of Retirement Benefits System Reconciliations**

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** Partial (first issued relating to fiscal year 2018, with significant progress)

**Prior Title:** Document Retirement Benefits System Reconciliations

During the fiscal year 2018 audit, we determined that the Department of Corrections (Corrections) was not adequately documenting reconciliations between the Commonwealth's human resources system and the Commonwealth's retirement benefits system. Additionally, as part of the reconciliation between these two systems, Corrections was not confirming the contribution snapshot within the required timeframe.

As of our report date, Corrections had implemented corrective actions with respect to this previously reported finding, but had not completely implemented all corrective actions.

Corrections should continue to improve policies and procedures to strengthen internal controls and oversight over this process. Corrections should ensure the reconciliation's adequate and timely completion. In addition, Corrections should consider designing and implementing more centralized procedures over this process.

### **Perform Annual Access Review of Information Systems**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued relating to fiscal year 2018)

During the fiscal year 2018 audit, we determined Corrections is not performing an adequate annual review of system access to the Commonwealth's attendance and leave system, Correction's attendance and leave system, and the Commonwealth's human resource system.

As of our report date, Corrections had implemented corrective actions with respect to this previously reported finding, but had not completely implemented all corrective actions.

Corrections should continue to improve procedures to ensure a detailed annual review of systems access to the Commonwealth's attendance and leave system, Correction's attendance and leave system, and the Commonwealth's human resource system is performed.

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Document Payroll Certification Policies and Procedures**

**Type:** Internal Control

**Severity:** Deficiency

**Repeat:** No

Corrections Payroll Department does not have adequately documented policies and procedures surrounding Correction's payroll certification process. The Payroll Department maintains a list of documents necessary to perform the certification and indicating audit schedules; and staff possess adequate institutional knowledge to perform the certification process in the Payroll Manager's absence. However, there are no complete, systematic desk procedures maintained that provides enough detail for an employee to understand the process from start to finish.

CAPP Manual Topic 20900 – Reconciliation Procedures states, "CAPP Manual Procedures alone never eliminate the need and requirement for each agency to publish its own internal policies and procedures documents, approved in writing by agency management." Additionally, CAPP Manual Topic 50800 – Payroll Certification states that "is it essential that agencies develop and apply consistent policies and procedures to control payroll certification."

The lack of formally documented internal policies and procedures that are customized to reflect the agency's staffing, organization, and unique operating procedures exposes the agency to the unnecessary risk of payroll certification being performed improperly. Corrections lack of formally documented policies and procedures is caused by the Payroll Manager's lack of belief that written policies and procedures are necessary for the department to function properly.

Management should document detailed, complete, and systematic desk procedures surrounding the payroll certification process to strengthen internal controls, mitigate the risk of misinterpretation of job duties, and mitigate the risk of losing valuable institutional knowledge.

### **Improve Documentation over Payroll Reconciliations**

**Type:** Internal Control

**Severity:** Deficiency

**Repeat:** No

Corrections is not adequately documenting reconciliations between the Commonwealth's payroll system (payroll system) and the Commonwealth's accounting and financial reporting system (financial system). In our sample of monthly reconciliations between the payroll system and financial system, we found that for five of the six Corrections' agencies tested, the preparer and reviewer did not sign and date the reconciliation for each of the three months tested.

CAPP Manual Topic 20900 requires a complete and timely reconciliation between the payroll system and the financial system with all necessary elements. Without the signature and date from a

preparer and a reviewer, there is no evidence to support that the preparer and reviewer are separate individuals, nor evidence to support the reconciliation's timely completion. Missing signatures and dates on reconciliations between the payroll system and the financial system is caused by inadequate oversight of business managers at the individual Correction's facilities.

Corrections should ensure that reconciliations between the payroll system and the financial system include evidence of preparation and review using proper segregation of duties, and evidence of the date that the reconciliation was completed.

### **Properly Complete the Employee Eligibility Form**

**Type:** Internal Control and Compliance

**Severity:** Deficiency

**Repeat:** No

Corrections has not completed Employee Eligibility Verification (I-9) Forms in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. I-9 forms were not properly completed in the following instances:

- two out of 25 (12%) randomly sampled employees did not complete and sign Section 1 of the I-9 Form by the first day of employment;
- the Human Resources Officer did not complete Section 2 within the required timeframe of three business days for one out of 25 (4%) randomly sampled employees; and
- three out of 25 (12%) employees were missing required information in Section 2.

The Immigration Reform and Control Act of 1986 requires that all employees hired after November 6, 1986, have a Form I-9 completed to verify both employment eligibility and identity. The U.S. Citizenship and Immigration Services set forth federal requirements for completing the Form I-9 in the Handbook for Employers M-274 (the Handbook). Chapter 3 of the Handbook requires the employee to complete and sign Section 1 of the Form I-9 by the first date of employment. Chapter 4 of the Handbook requires the employer to complete Section 2 of Form I-9 within three business days of the first date employment. Additionally, Chapter 4 of the Handbook requires employee information in Section 1 to match employee information in Section 2 of the Form I-9. Noncompliance with federal regulations related to employment verification could result in civil and/or criminal penalties and debarment from government contracts.

The Human Resources Manager indicated that these issues are due to the oversight of the human resources officer who completed the I-9 Form. Additionally, untimely completion of I-9 Forms is due to management's misunderstanding of the required timeframe.

Corrections should ensure that I-9 Forms are being completed properly while on-boarding employees, specifically, Section 1 on the first day of employment and Section 2 within the first three days of employment. Corrections should also ensure current policies and procedures identify when and how the employee and employer should complete the Form I-9.

## AUDIT SCOPE AND FINANCIAL INFORMATION

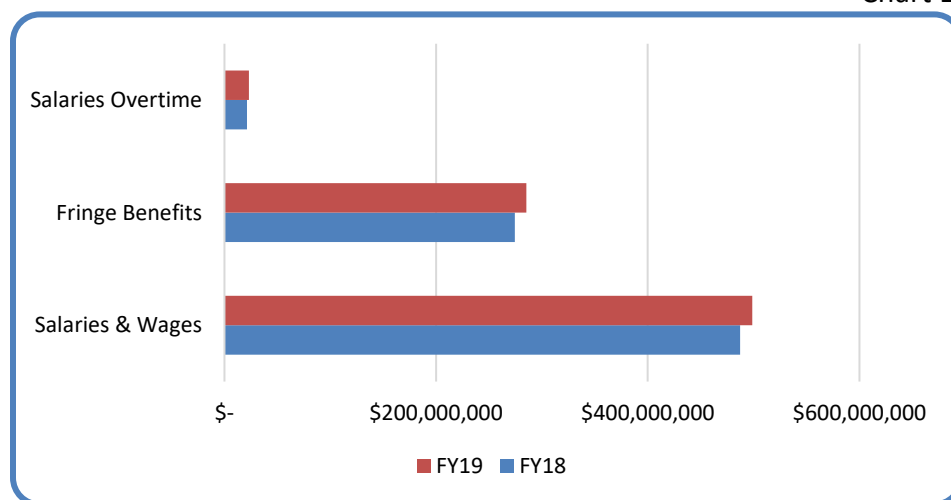
Corrections manages Virginia's correctional facilities for adult offenders and directs the work of all probation and parole officers. Their mission is to enhance the quality of life in the Commonwealth by improving public safety. Corrections operates a central office in Richmond, as well as various correctional institutions and units across the state, including 26 major correctional institutions. These facilities house approximately 30,000 offenders. Corrections also oversees one privately operated institution that houses over 1,500 offenders. Corrections' payroll and fringe benefit expenses are material to the Commonwealth's financial statements and; therefore, we included this cycle in our audit scope.

### **Payroll and Fringe Benefit Expenses**

Corrections employs over 12,000 full time employees statewide, with the majority of staff being located in major correctional centers. Payroll and fringe benefit expenses totaled over \$783 million in fiscal year 2019, as compared to \$762 million in fiscal year 2018. A breakdown of these expenses is shown in Chart 1. Salaries and wages accounts for the majority of these expenses, but fringe benefits expenses are also significant. Payroll expenses also include \$23 million of overtime payments.

**Payroll and Fringe Benefit Expenses Fiscal Year 2019**

Chart 1



Source: Commonwealth's accounting and financial reporting system





Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 5, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

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

We have audited the financial records and operations related to payroll and fringe benefits for the **Department of Corrections'** including the Virginia Parole Board for the year ended June 30, 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objective, relative to payroll and fringe benefits, was to evaluate the accuracy of Correction's financial transactions as reported in the Comprehensive Annual Financial Report (CAFR) for the Commonwealth of Virginia for the year ended June 30, 2019. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting and payroll systems; evaluated the accuracy of related personnel information reported in the Commonwealth's retirement benefits system; reviewed the adequacy of the Department's internal controls, including system access controls; and tested for compliance with applicable laws, regulations, contracts, and grant agreements. We also evaluated the accuracy of Corrections' leave liability attachment reported to the Department of Accounts for inclusion in the CAFR for the year ended June 30, 2019.

We also reviewed corrective action for audit findings from the prior year as follows: "Document Retirement Benefits Systems Reconciliation" and "Perform Annual Access Certifications for Information Systems." We did not review management's corrective action on prior year findings identified as deferred in the [Findings Summary](#). We will follow up on these findings in a future audit. The Findings Summary contains a listing of prior findings and the status of follow-up on management's corrective action.

## **Audit Scope and Methodology**

Correction's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over payroll and fringe benefits and information systems access over related information systems.

We performed audit tests to determine whether Correction's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Correction's operations. We performed analytical procedures and tested details of transactions to achieve our objectives.

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

## **Conclusions**

We found that Corrections properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting and payroll systems. In addition, we found the related payroll information reported in the Commonwealth's retirement benefits system was accurate, in all material respects.

We found that Corrections properly stated, in all material respects, the amounts reported in payroll attachments reported to the Department of Accounts for inclusion in the CAFR for the year ended June 30, 2019.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the sections entitled "Status of Prior Year Findings" and "Audit Findings and Recommendations."

### **Exit Conference and Report Distribution**

We discussed this report with management on December 12, 2019. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

Martha S. Mavredes  
AUDITOR OF PUBLIC ACCOUNTS

AVC/clj

## FINDINGS SUMMARY

| Finding   | Follow Up Status | Year(s) Issued |
|---|------------------|----------------|
| <b>Improve Documentation and Timeliness of Retirement Benefits System Reconciliations</b> | Repeat*          | 2018           |
| <b>Perform Annual Access Review of Information Systems</b>                                | Repeat*          | 2018           |
| <b>Document Payroll Certification Policies and Procedures</b>                             | New              | 2019           |
| <b>Improve Documentation over Payroll Reconciliations</b>                                 | New              | 2019           |
| <b>Properly Complete the Employee Eligibility Form</b>                                    | New              | 2019           |
| <b>Improve Internal Controls over Purchasing System Access</b>                            | Deferred**       | 2017           |
| <b>Comply with 1500 Hour Rule for Wage Employees</b>                                      | Deferred**       | 2017           |

\*Follow-up Status on prior year findings identified as “Repeat” indicates sufficient corrective action on a prior recommendation is not complete; therefore, the prior year finding has been fully or partially repeated.

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



# COMMONWEALTH of VIRGINIA

HAROLD W. CLARKE  
DIRECTOR

*Department of Corrections*

P. O. BOX 26963  
RICHMOND, VIRGINIA 23261  
(804) 674-3000

December 16, 2019

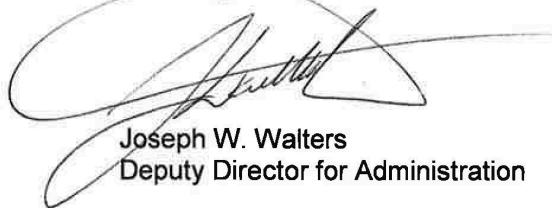
Ms. Martha Mavredes  
Auditor of Public Accounts  
Virginia Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia, 23218

Dear Ms. Mavredes:

The Department of Corrections has reviewed the Auditor of Public Accounts (APA) report pertaining to the Department for the audit period July 1, 2018 through June 30, 2019. We understand the findings and appreciate the opportunity to respond to the recommendations.

The Department of Corrections will provide responses to the findings accompanied by plans to appropriately and specifically address the issues raised by the APA. Combined with actions already taken and currently under way, the Department's objective to comply with applicable laws and regulations will serve to strengthen and control our operations and financial records. Please let me know if you have questions regarding this response.

Sincerely,



Joseph W. Walters  
Deputy Director for Administration

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

## DEPARTMENT OF CORRECTIONS

As of June 30, 2019

Harold W. Clarke, Director

David Robinson, Chief of Corrections, Operations

Joseph W. Walters, Deputy Director, Administrations

Scott Richeson, Re-entry and Programs Director

Lucinda Childs-White, Director of Human Resources

Louis Eacho, Chief Fiscal Officer