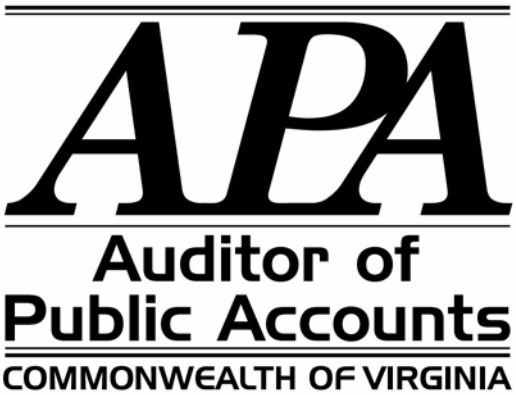
DEPARTMENT OF CORRECTIONS
AND VIRGINIA PAROLE BOARD

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005



AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2005, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;

- matters involving internal control and its operations necessary to bring to management's attention;

- no instances of noncompliance with applicable laws and regulations; and

- inadequate implementation of corrective action with respect to the prior audit findings "Ensure Proper Recording and Tracking of Leases."

This report does not include Virginia Correctional Enterprises. Findings, results, and recommendations related to Virginia Correctional Enterprises will be issued in a separate report.

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AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Corrections (Corrections) operates the state's correctional facilities for adult offenders and directs the work of all probation and parole officers. Corrections has determined that its mission is to enhance public safety by controlling and supervising sentenced offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards. In the Appropriation Act, Corrections has the following divisions: Division of Institutions, Division of Community Corrections, and Central Administration. Corrections also coordinates activities that relate to parole with the Parole Board. Corrections processes the Parole Board's financial transactions and prepares its financial reports. Each division of Corrections and the Parole Board is described in more detail later in this report.

Corrections' primary source of funding is General Fund appropriations, which pay over 90 percent of the operating expenses. Corrections also receives monies through federal grants and for housing out-of-state inmates. The following schedule compares selected operating statistics for the past six fiscal years.

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
Average daily inmate population	31,406	31,670	32,374	31,645	30,207	30,373
Average annual cost per inmate	$19,428	$20,979	$19,913	$20,142	$20,401	$21,248
Total operating budget (in millions)	$ 729	$ 793	$ 777	$ 768	$ 774	$ 814

Source: Management Information Summary Report and Population Summary prepared by Department

The operating budget increased in 2001 when Corrections opened new facilities during this time. The budget decreased in 2002 and 2003 as a result of budget reductions. Budget increases in 2004 and 2005 are mostly due to salary and fringe benefit increases.

Correction's largest operating expense is payroll and fringe benefit costs for over 11,000 individuals, most of who work in the Division of Institutions. Although Corrections has an authorized employment level of 12,409 positions, the actual average number of employees during the year was only 11,406, resulting in approximately 1,000 vacant positions. Most of these vacancies are in the Division of Institutions and are due to difficulty in recruiting and retaining correctional officers to work in the correctional centers. The following table summarizes the positions and employment levels by division.

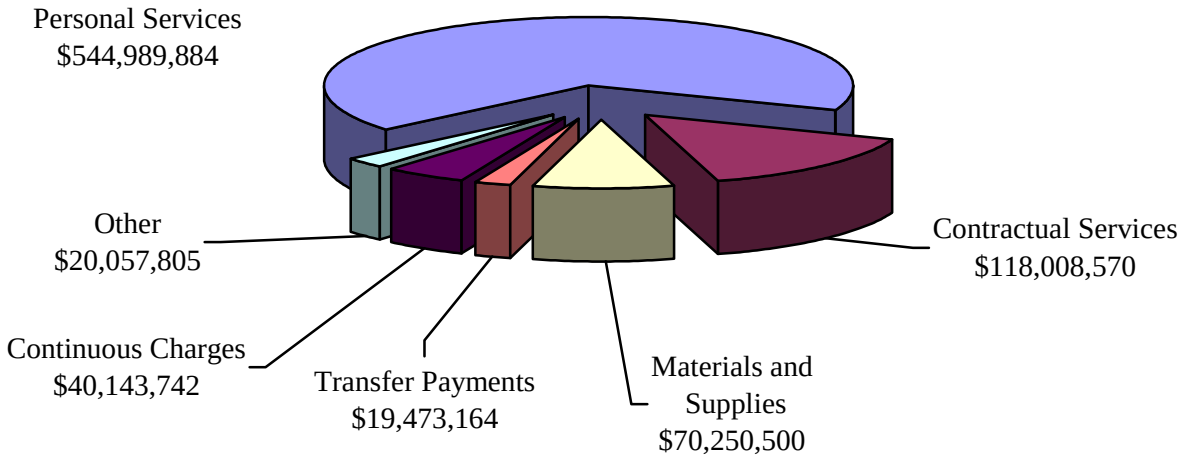
Summary of Authorized and Actual Positions for Fiscal Year 2005

	Authorized Employment Level	Actual Employment Level
Division of Institutions	10,686	9,820
Division of Community Corrections	1,401	1,293
Central Administration	322	293
Total	12,409	11,406

Source: Chapter 951, Appropriations Act and Management Information Summary Report

Corrections second largest expense item is contractual services. Corrections has several large contracts for services at various facilities including food services, medical and prescription drug services, and phone services. The following chart shows total operating expenses by type for fiscal year 2005.

Operating Expense by Type



Corrections uses the Commonwealth Accounting and Reporting System (CARS) as its primary financial accounting system, but CARS does not include the inmate trust funds and commissary funds. Corrections maintains separate bank accounts for each of these funds at each facility.

Inmate trust funds are funds held for inmates, and totaled $7.1 million at June 30, 2005. The individual institutions also manage commissary funds that arise from the sale of personal products to inmates. Beginning in 2003, Corrections contracted with a private vendor to operate the commissaries, with the vendor paying Corrections a 6.5 percent commission on all sales. Each institution has the option of contracting their commissary operations or continuing to operate it themselves. All but three institutions chose to contract out their commissary operations.

In addition to the operating expenses discussed above, Corrections also has capital outlay and maintenance reserve expenses. In fiscal year 2005, Corrections spent $35 million for capital outlay of which $15.8 million was for the construction of two new medium security prisons located in Tazewell and Pittsylvania Counties and $3.5 million was for the expansion of Deerfield Correctional Center.

The following table summarizes budget and actual operating activity for fiscal year 2005 by Corrections' divisions.

	Original Budget	Final Budget	Expenses
Division of Institutions	$667,627,833	$673,274,595	$673,002,557
Division of Community Corrections	87,905,215	87,205,851	86,950,525
Central Administration	39,466,535	53,381,076	52,290,750
Virginia Parole Board	648,497	714,806	679,833
Total	$795,648,080	$814,576,328	$812,923,665

Overall, Corrections' original budget increased by over $18 million. Most of the increase is a $14 million transfer from Central Appropriations for salary and fringe benefit increases approved by the General Assembly. This increase primarily affects the Division of Institutions but is not evident in the previous table due to an offsetting decrease for vacancy savings that Corrections transferred from Institutions to Central Administration.

During the budget development process, Corrections includes in its budget request funding for all of its authorized employment level, although the actual employment level is usually significantly less than the authorized level as shown on the previous page. This practice results in annual savings to the agency when these positions go unfilled. As a result of the vacant positions, Corrections had vacancy savings of $25 million in 2005. Most of these savings occur in the Division of Institutions but Corrections transfers the amount to Central Administration to fund other expenses. Corrections used these savings for other expenses including overtime costs to ensure coverage of vital security posts, increased cost for information technology operation, training costs, utility rate increases, and infrastructure maintenance and repair. Corrections also used these savings to prepay $2.8 million for 2006 rent and worker's compensation.

We provide more detailed information on each division and the Parole Board below.

Division of Institutions

The Division of Institutions oversees the operations of 30 major correctional centers, six work centers, six reception and classification centers, and ten field units. In fiscal year 2005, the Division of Institutions converted three field units to major correctional centers in recognition of their comparable size and security level of other major institutions. During fiscal year 2005, Corrections had an average daily population of 30,373 inmates.

Budget and Actual Funding Analysis

	Original Budget	Final Budget	Actual Funding	2006 Proposed Budget
General Fund	$659,316,901	$663,650,539	$663,650,539	$671,759,426
Special Revenue Fund	8,310,932	8,649,056	8,536,292	2,010,000
Federal	-	975,000	903,106	-
Total	$667,627,833	$673,274,595	$673,089,937	$673,769,426

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Administrative and support services	$256,421,443	$266,410,578	$266,172,516
Agribusiness	6,550,309	8,418,041	8,418,035
Reserve fund	32,589	32,589	-
Secure confinement	404,623,492	398,413,387	398,412,006
Total	$667,627,833	$673,274,595	$673,002,557

Overall, the Division of Institutions budget did not change significantly during the year; however, there was a transfer from Central Appropriations for salary and fringe benefit increases with an offsetting appropriation transfer to Central Administration for vacancy savings, which the preceding section discussed. The decrease in the 2006 proposed budget for special revenue fund reflects the continued decrease in out-of-state inmate revenue. These funds have decreased significantly since 2002 since other states have not renewed their contracts or Corrections, in an effort to free up prison capacity for Virginia inmates has declined to extend the contracts. General Funds have gradually replaced these special revenue funds.

Division of Community Corrections

The Division of Community Corrections provides supervision of offenders in the community through Probation and Parole Services. Staff supervised over 51,000 probationers and parolees, which includes approximately 5,400 participants of special programs such as Pilot Project Sex Offenders and Home Electronic Monitoring. Community Corrections operates with 43 Probation and Parole Districts, seven offices, and one day reporting center. In addition, the Community Corrections' Local Facilities Unit is the department's liaison with local and regional jails and lockups. In fiscal year 2005, the Division of Community Corrections had approximately 878 inmates in alternative programs, including four detention centers and five diversion centers.

Budget and Actual Funding Analysis

	Original Budget	Final Budget	Actual Funding	2006 Proposed Budget
General Fund	$84,770,368	$83,072,617	$83,072,617	$87,765,711
Special Revenue Fund	3,134,847	3,285,495	3,160,164	3,234,847
Federal	-	847,739	726,287	-
Total	$87,905,215	$87,205,851	$86,959,068	$91,000,558

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Administrative and support services	$ 7,504,573	$ 7,728,374	$ 7,728,371
Community based custody	7,273,995	4,780,025	4,780,023
Probation and re-entry services	59,273,120	61,284,253	61,030,714
Secure confinement	13,808,084	13,327,667	13,325,889
Agribusiness	45,443	85,532	85,528
Total	$87,905,215	$87,205,851	$ 86,950,525

The significant decrease from the original budget to the final budget in fiscal year 2005 in the Community Based Custody program was mostly due to an appropriation transfer to Central Administration to help offset training and information technology costs.

Central Administration

Central Administration includes various support departments with the agency such as the Director's Office, Inspector General, Corrections Technology Services Unit (CTSU), Architectural and Engineering Services, and Employee Relations and Training.

Budget and Actual Funding Analysis

	Original Budget	Final Budget	Actual Funding	2006 Proposed Budget
General Fund	$37,311,535	$49,121,174	$49,121,174	$37,055,015
Special Revenue Fund	2,155,000	3,838,552	5,725,023	3,655,000
Federal	-	421,350	201,995	-
Total	$39,466,535	$53,381,076	$55,048,192	$40,710,015

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Administrative and support services	$34,095,629	$47,806,415	$46,716,089
Criminal justice training, education and standards	4,762,687	4,939,272	4,939,272
Vending facilities, snack bars, and cafeterias	608,219	635,389	635,389
Total	$39,466,535	$53,381,076	$52,290,750

The increase in the Central Administration budget reflects appropriation transfers from other divisions, primarily the Division of Institutions. Transfers of savings from position vacancies from the other divisions to Central Administration fund various activities including information technology and employee training. In addition, Corrections prepaid fiscal year 2006 expenditures for Worker's Compensation and rent totaling $2.8 million.

Virginia Parole Board

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Actual Expenses	2006 Proposed Budget
Probation and re-entry services	$648,497	$714,806	$679,833	$648,359

Information Systems

Corrections provides information technology services through over 30 different applications and systems operating on a VAX/VMS Cluster, an IBM Mainframe, Windows servers, and personal computers. Many of Corrections' critical systems are using outdated legacy technologies. Corrections first began working on development of an enterprise-wide system to replace and integrate its various offender management systems in 1999. Corrections suspended this project, named ICIS, in 2002 for several reasons including the prohibitive cost of the system, the vendor delaying the development efforts, and uncertainty with changes in administration and information technology.

Corrections still has a need to replace its older critical legacy systems, specifically those that handle offender data. Corrections has an effort to purchase a new offender management information system, named VirginiaCORIS. The first step is the awarding of a contract for the time computation portion of the system. Corrections received this application in September 2005, and is conducting user acceptance testing as well as system integration testing. Corrections anticipates the total cost of the time computation module to be approximately $1 million, and expects to complete this module in fiscal year 2006.

Corrections is continuing to plan the remaining two phases of VirginiaCORIS, but does not currently have funding to pay for the system. The final two phases of the system have an estimated cost of $14.5 million. The Project Management Division of Virginia Information Technology Agency (VITA) approved Corrections' request to continue planning using a $250,000 grant from DCJS.

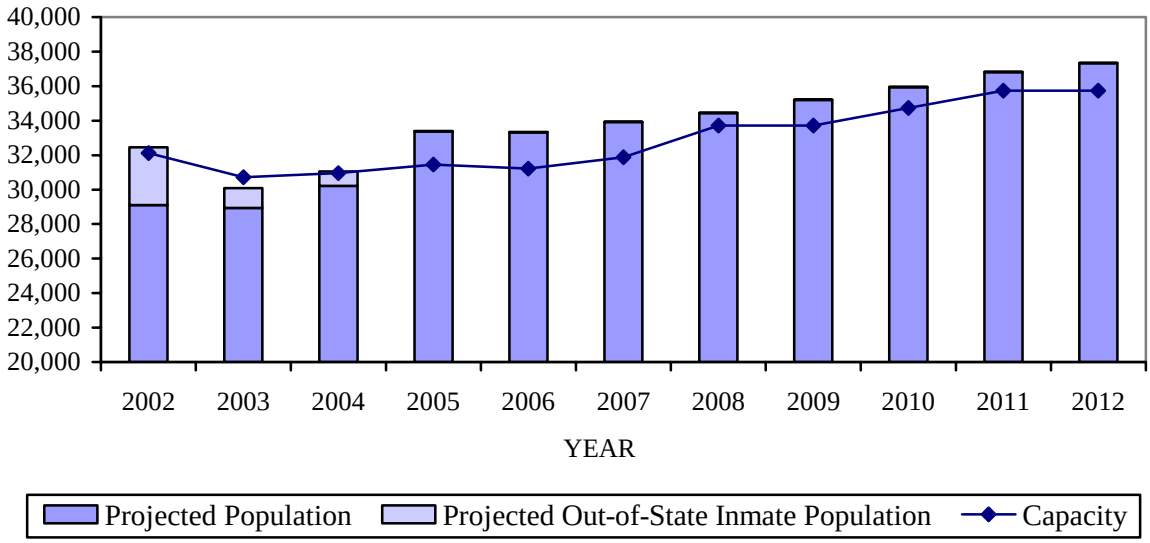
VITA assumed ownership of and responsibility for Corrections' information technology infrastructure in September 2004. Under this organizational change, 58 information technology staff, as well as technology assets, transferred to VITA. VITA subsequently transferred two full time positions back to Corrections. Corrections pays VITA for maintaining the information technology infrastructure and providing support for those resources. Corrections maintains responsibility for planning, developing, and maintaining applications needed to support its operations.

Inmate Population and Prison Capacity

Corrections' facilities are now operating at or over capacity due to the growing population of Virginia inmates combined with stable or declining capacity in the prison system over the last few years. Although prison expansions in the late 1990's resulted in excess prison capacity, Virginia's increasing inmate population has consumed this excess capacity. As the Virginia inmate population has grown over the last few years, Corrections has been taking steps to reduce the number of out-of-state inmates. The out-of-state inmate population peaked in the early 2000s, when Virginia contracted with other states to house prisoners, and has been declining since then.

The following graph of population and capacity forecasts through 2012 shows a capacity shortfall of approximately 2,000 inmates in 2006 decreasing to 1,500 by 2012. Information presented in the following graph for fiscal years 2002-2005 represents actual population; information for fiscal years 2006 and beyond is from Corrections' master plan which incorporates the population projections issued by the Secretary of Public Safety in October 2005.

Prison Population and Capacity Analysis



Source: Corrections State Responsible Offender Population Forecast and Master Plan

In analyzing the information in this graph, it is important to understand the assumptions made in the population projections and capacity amounts. Prison capacity actually decreased in 2003 when Corrections closed the Staunton Correctional Center in response to budget reductions. Prison capacity increases in the later years reflect construction of new prisons, increasing prison capacity by almost 4,000 by 2012. The 2004 General Assembly approved $68.6 million for a new medium security prison in Tazewell County, $73.5 million for a new medium security prison in Pittsylvania County and $21.9 million for expansion of Deerfield Correctional Center. The General Assembly also approved $35 million for Phase 2 of the St. Brides replacement project. Corrections is using a public private partnership agreement to construct all of these projects. The 2004 General Assembly also approved planning for a new prison in the Mt. Rogers planning district and another in Charlotte County, both of which are included in the capacity amounts in the above graph.

Corrections is currently taking several steps in an effort to relieve the capacity shortfall. Corrections has all facilities double-bunking inmates to various extents. Several facilities have already reached their maximum capacity for double-bunking, and there are approximately 943 temporary beds statewide. Corrections has a long-term goal to discontinue the use of temporary beds, but must use the beds in order to relieve the critical inmate backlog in local jails. The projected population in the graph represents state responsible inmates only, not inmates who are the responsibility of local jails. Currently, there are approximately 1,800 state-responsible inmates housed in local jails.

Previously facilities were physically limited to how many prisoners they could have by either their water or wastewater capacities, or both. There have been some changes in the water and wastewater capacities due to upgrades and renovations; however, most of the facilities could still not accept any more inmates because of the high number of temporary and emergency beds.

As discussed above, Corrections began contracting to house out-of-state inmates in the late 1990s to fill the excess capacity in the prisons. The graph above reflects the declining out-of-state inmate population as Corrections phases out these contracts to make room for the increasing number of Virginia inmates. Corrections expects to keep approximately 20 out-of-state inmates from the Virgin Islands and Hawaii, but does not plan to enter into any new contracts. Corrections charges a daily rate between $68 and $72 based on

the contract requirements and the security level of the inmates. With the decrease in the number of contracted prisoners, Corrections is using General Funds to cover the expenses previously supported with the out-of-state inmate revenues. The following table shows actual out-of-state inmate population and financial information through 2005.

Out of State Inmate Population and Revenue Information

	2000	2001	2002	2003	2004	2005
Average daily out-of-state inmate population	3,477	3,357	3,145	1,147	839	20
Total out-of-state inmate revenue	$78,819,882	$75,956,756	$76,857,568	$29,951,174	$21,092,668	$3,744,588
Total amount returned to the General Fund	$21,383,807	$ 6,900,000	$ 5,868,000	$ 220,396	$ 965,132	$2,107,272

Source: Management Information Summary Report prepared by the Department

Prison Privatization

Corrections has one privately-operated medium security prison in Lawrenceville which opened in 1998. At that time, Corrections contracted with a private corporation, for the construction and operation of a medium security prison with 1,536 general population beds, and 42 segregation beds. The Industrial Development Authority of Brunswick County financed the design and construction of the facility and Corrections leased the facility from then through August 2004. At that time, the Commonwealth issued bonds through the Virginia Public Building Authority to purchase the facility.

The original contract to operate the prison with Corrections Corporation of America was in effect through March 2003. Chapter 899 of the Acts of Assembly directed Corrections to issue a Request for Proposal for the procurement of a private prison management firm to operate the facility upon expiration of the original contract. Corrections compared the projected cost of operation by the private contractor with the projected cost of operation by the Corrections using its own employees and prepared a report of its findings. Corrections contracts with The GEO Group (formerly the Wackenhut Correctional Corporation) and the contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The facility houses only male inmates and does not have a major medical facility. The contract establishes a Per Diem rate of $35.67 for the first 1,425 inmates and $6.03 for each inmate above 1,425 during the first two years of the contract. The contract adjusts the Per Diem rates on March 23 of each of the subsequent years based on the Consumer Products Index for wage earners. In March 2005, the rates adjustment resulted in Per Diem amounts of $36.73 and $6.21, respectively.

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

Comparison of Major Correctional Center Costs

Aside from the Lawrenceville facility previously discussed, Corrections operates all other state correctional facilities. In fiscal year 2005, Corrections converted the Pulaski, Baskerville, and Botetourt field units into major correctional centers; however they are still included in regional field unit financial data, instead of reporting them as major correctional centers. Correctional facilities operate at various security levels ranging from minimum (level 1) to super-maximum (level 6). Corrections has only one level 6 facility (Red Onion).

Corrections receives an appropriation in its Division of Institutions for all of its facilities. The Central Administrative agency then allocates this appropriation out to the individual institutions by establishing an operating budget for each correctional center with the Warden having primary responsibility for administering the budget. Most correctional center operating budgets do not include all medical treatment services or wastewater treatment expenses incurred at the facility.

The tables on the following pages show fiscal year 2005 expenses by institution. In addition, they also reflect a daily and annual cost calculation per inmate based on the average daily population. The expenses shown in the tables do not include maintenance reserve, regional office administration, central office administration, or debt service costs. The tables show only the expenses of the major correctional centers and do not include any costs or inmates related to field units, reception classification centers, or work centers. Expenses in the tables come from the CARS, and are reported in the following categories for each major correctional center:

Administration – salaries for wardens, and other administrative expenses of the facility
Agribusiness – efforts to produce and process food, meats and related products
Education – educational program for inmates provided by Department of Correctional Education
Food and dietary services
Laundry
Medical and clinical services
Physical plant – costs to operate and maintain the physical plant facilities
Power plant – costs to provide, operate and maintain power plants
Recreation
Rehabilitation and treatment services
Security services
Wastewater treatment

As shown in the tables, the average daily expense per inmate ranges from $43 to $167. On average, the daily expense per inmate is $61 across all facilities which results in an annual average expense per inmate of $22,500. Security services are the largest expense for the major correctional centers, followed by medical and clinical services expense. Below is a discussion of each of these areas in more detail.

Security Services

There is an average of 8,450 employees who work in the major correctional centers, most of whom provide security services. These expenses are primarily payroll and fringe benefit costs for these employees.

Medical and Clinical Services

Aside from security services, medical and clinical services are the next highest cost at correctional centers. While each institution includes a portion of medical services costs in their individual budgets, Corrections budgets and accounts for the majority of medical services centrally because of a series of statewide contracts. These statewide contracts include providing medical staff at some facilities; a third party heath care provider and a pharmacy.

While each prison has medical facilities to provide primary care for inmates, Powhatan, Greensville and Fluvanna also have specialized facilities to treat inmates with more serious health issues. Marion has a 178 bed psychiatric unit to house mentally ill inmates, which makes it the largest medical facility in Corrections. The second largest medical facility is Fluvanna which has a 46 bed infirmary and 126 mental beds. In addition, Deerfield has an "assisted living" section (57 beds) for prisoners that may be lacking in one or more of the "activities of life."

Medical staffing at facilities is a combination of state and contracted employees. Overall, Corrections estimates there are 700 medical staff at facilities statewide. The size of the medical staff at each facility will vary depending on the size of the institution, the medical needs of the inmates, and the availability of qualified medical personnel in the area. The use of contract employees is dependent on the ability to staff a position at a facility. There are some statewide contracts for nurses and doctors; however, they are unable to provide contract employees in some locations that may be too remote. In those cases, the facility may have to contract with an employee locally. A facility may also contract with a local physician or nurse for part-time services if there is not a need for a full-time position.

Corrections acquires local services using a contract with Anthem, which allows Corrections to access the contractor's provider network. Under this self insurance plan, Corrections has Anthem recognize inmates as if they had individual insurance. Anthem in addition to providing access to its network, also acts as a plan administrator, auditing charges, reviewing care, and providing its network discount for an administrative fee.

In 2005, inmate medical expenses amounted to approximately $102.9 million which is broken down in the following table. These costs amount to an average annual costs of over $3,000 per inmate.

Summary of Medical Expenses for Fiscal year 2005

Medical expenses paid by facilities	$ 71,080,060
Medical expenses paid centrally (for facilities)	22,325,306
Medical expenses paid centrally (mostly for the Office of Health Services)	9,516,318
Total medical expenses	$102,921,684

Source: CARS and Management Information Summary prepared by Corrections

Inmates must pay a co-payment to receive medical services and Corrections withdraws the amount from the inmate's trust fund account. Corrections uses the inmate co-payments to help fund their telemedicine program. Corrections' telemedicine program operates at 16 facilities and allows inmates to receive medical care from remote locations via a telecommunications link. The technology allows the doctor or provider to observe the patient while the inmate remains at the facility, saving on transportation costs. In fiscal year 2005, Corrections collected inmate co-payments of $498,000 to help offset the costs of the telemedicine program.

	Red Onion Correctional Center Security Level 6	Wallens Ridge Correctional Center Security Level 5	Sussex I Correctional Center Security Level 5	Sussex II Correctional Center Security Level 4
Average daily population:	784	1,200	1,146	1,252
Average employment level:	403	405	343	366
Expenses:				
Administration	$ 1,589,475	$ 1,483,490	$ 1,819,048	$ 1,845,406
Agribusiness	-	-	-	-
Education	435,908	429,660	569,374	683,586
Food and dietary services	987,932	1,352,589	1,318,235	1,391,006
Laundry	72,330	131,275	156,302	164,345
Medical and clinical services	2,177,574	2,232,383	3,533,537	3,496,271
Physical plant	2,042,654	2,466,481	4,363,829	1,863,542
Power plant	-	-	436,001	890,043
Recreation	40,407	73,301	-	40,249
Rehabilitation and treatment services	806,357	844,580	657,464	480,909
Security	14,239,537	14,320,809	14,649,499	14,126,208
Wastewater treatment	-	-	-	-
Total expenses	$22,392,174	$23,334,568	$27,503,289	$24,981,565
Average annual expenses per inmate	$ 28,561	$ 19,445	$ 23,999	$ 19,953
Average daily expenses per inmate	$ 78.25	$ 53.28	$ 65.75	$ 54.67

	Keen Mountain Correctional Center Security Level 4	Nottoway Correctional Center Security Level 4	Augusta Correctional Center Security Level 3	Brunswick Correctional Center Security Level 3
Average daily population:	894	1,199	1,118	719
Average employment level:	290	462	403	373
Expenses:				
Administration	$ 1,230,690	$ 1,421,510	$ 1,643,550	$ 1,242,615
Agribusiness	-	293,734	269,043	244,822
Education	497,017	584,056	585,636	788,500
Food and dietary services	997,175	1,306,886	1,299,572	963,297
Laundry	63,796	236,392	138,582	46,105
Medical and clinical services	1,424,505	2,373,110	2,514,863	2,447,138
Physical plant	1,712,915	2,691,748	2,635,360	1,901,603
Power plant	671,114	401,447	406,332	393,068
Recreation	42,375	99,741	48,969	42,451
Rehabilitation and treatment services	647,755	707,971	883,276	751,192
Security	10,039,446	16,246,983	14,328,167	12,225,765
Wastewater treatment	-	268,431	-	-
Total expenses	$17,326,788	$26,632,009	$24,753,350	$21,046,556
Average annual expenses per inmate	$ 19,381	$ 22,212	$ 22,141	$ 29,272
Average daily expenses per inmate	$ 58.10	$ 60.85	$ 60.66	$ 80.20

	Buckingham Correctional Center Security Level 3	Fluvanna Correctional Center Security Level 3	Greensville Correctional Center Security Level 3	Mecklenburg Correctional Center Security Level 3
Average daily population:	985	1,162	3,006	726
Average employment level:	343	353	822	312
Expenses:				
Administration	$ 1,349,226	$ 1,775,531	$ 3,545,413	$ 1,441,171
Agribusiness	209,715	-	1,063,862	-
Education	574,522	1,204,869	1,724,439	225,628
Food and dietary services	1,122,748	1,086,504	3,995,477	1,040,519
Laundry	46,043	174,077	635,530	80,646
Medical and clinical services	2,023,420	8,851,322	13,567,095	1,712,082
Physical plant	1,551,050	1,678,376	5,813,070	1,811,287
Power plant	405,941	-	810,400	636,642
Recreation	51,118	-	125,868	54,818
Rehabilitation and treatment services	842,370	1,035,447	1,852,450	612,790
Security	13,282,934	13,352,397	32,644,132	10,967,295
Wastewater treatment	219,034	415,595	-	-
Total expenses	$21,678,121	$29,574,118	$65,777,736	$18,582,878
Average annual expenses per inmate	$ 22,008	$ 25,451	$ 21,882	$ 25,596
Average daily expenses per inmate	$ 60.30	$ 69.73	$ 59.95	$ 70.13

	Powhatan Correctional Center Security Level 3	Southampton Correctional Center Security Level 3	Bland Correctional Center Security Level 2	Coffeewood Correctional Center Security Level 2
Average daily population:	849	649	630	1,195
Average employment level:	319	251	302	258
Expenses:				
Administration	$ 2,124,369	$ 1,347,894	$ 1,102,742	$ 1,663,131
Agribusiness	-	1,566,107	1,020,148	173,492
Education	675,172	944,645	696,846	696,009
Food and dietary services	1,153,726	887,040	871,304	1,067,328
Laundry	31,094	13,351	91,673	109,991
Medical and clinical services	6,532,061	1,603,532	1,679,301	3,700,559
Physical plant	2,294,145	1,815,819	1,141,093	1,410,133
Power plant	1,020,169	955,021	380,833	-
Recreation	39,975	54,504	44,644	40,943
Rehabilitation and treatment services	804,197	449,945	651,949	819,672
Security	12,188,909	7,444,708	9,920,079	9,551,565
Wastewater treatment	-	296,491	371,209	334,785
Total expenses	$26,863,817	$17,379,057	$17,971,821	$19,567,608
Average annual expenses per inmate	$ 31,642	$ 26,778	$ 28,527	$ 16,375
Average daily expenses per inmate	$ 86.69	$ 73.36	$ 78.16	$ 44.86

	Deep Meadow Correctional Center Security Level 2	Deerfield Correctional Center Security Level 2	Dillwyn Correctional Center Security Level 2	Haynesville Correctional Center Security Level 2
Average daily population:	990	474	1,088	1,144
Average employment level:	303	185	263	315
Expenses:				
Administration	$ 1,733,804	$ 1,115,723	$ 1,440,686	$ 1,463,409
Agribusiness	-	25,016	-	-
Education	478,349	466,502	520,231	632,874
Food and dietary services	913,034	738,776	1,010,371	1,194,534
Laundry	87,383	5,955	44,087	87,102
Medical and clinical services	2,323,712	3,667,696	2,606,481	2,525,223
Physical plant	1,755,496	947,886	1,486,949	1,338,596
Power plant	-	-	-	-
Recreation	51,475	63,812	36,191	41,993
Rehabilitation and treatment services	348,313	412,158	854,142	873,619
Security	11,577,349	6,317,402	9,569,643	9,648,632
Wastewater treatment	-	-	-	334,785
Total expenses	$19,268,915	$13,760,926	$17,568,781	$18,140,767
Average annual expenses per inmate	$ 19,464	$ 29,031	$ 16,148	$ 15,857
Average daily expenses per inmate	$ 53.32	$ 79.54	$ 44.24	$ 43.44

	Indian Creek Correctional Center Security Level 2	James River Correctional Center Security Level 2	Lunenburg Correctional Center Security Level 2	St. Brides Correctional Center Security Level 2
Average daily population:	950	464	1,186	477
Average employment level:	248	258	264	176
Expenses:				
Administration	$ 1,349,062	$ 1,214,314	$ 1,400,142	$ 1,640,447
Agribusiness	-	2,135,037	-	-
Education	663,938	486,888	735,643	1,238,031
Food and dietary services	1,068,950	626,331	1,259,086	730,958
Laundry	64,806	49,483	110,855	22,650
Medical and clinical services	2,624,504	1,141,315	3,465,464	774,669
Physical plant	1,653,982	1,133,627	2,268,581	474,369
Power plant	-	486,389	-	394,366
Recreation	52,098	52,052	54,206	35,044
Rehabilitation and treatment services	845,562	209,278	878,062	603,801
Security	8,790,691	5,448,756	9,480,714	5,745,738
Wastewater treatment	-	769,341	-	334,462
Total expenses	$ 17,113,593	$ 13,752,811	$ 19,652,753	$ 11,994,535
Average annual expenses per inmate	$ 18,014.31	$ 29,639.68	$ 16,571	$ 25,146
Average daily expenses per inmate	$ 49.35	$ 81.20	$ 45.40	$ 68.89

	Virginia Correctional Center for Women Security Level 2	Marion Correctional Center Security Level 2	All Major Correctional Centers
Average daily population:	553	220	25,060
Average employment level:	207	226	8,450
Expenses:			
Administration	$ 1,568,138	$ 865,544	$ 40,416,530
Agribusiness	-	43,150	7,044,126
Education	878,127	229,660	17,646,108
Food and dietary services	630,682	322,143	29,336,203
Laundry	49,353	40,981	2,754,187
Medical and clinical services	2,191,853	2,778,979	83,968,649
Physical plant	1,164,374	597,913	50,014,878
Power plant	649,546	-	8,937,312
Recreation	46,639	168,983	1,401,856
Rehabilitation and treatment services	801,650	1,033,812	19,708,721
Security	6,198,647	7,380,013	299,686,018
Wastewater treatment	-	-	3,344,133
Total expenses	$14,179,009	$13,461,178	$564,258,721
Average annual expenses per inmate	$ 25,640	$ 61,187	$ 22,516
Average daily expenses per inmate	$ 70.25	$ 167.64	$ 61.69

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Address Effect of Vacancy Savings on Budget

Current budget development practices result in a budget that does not provide a sound link between the program budget and administrative expenses. When submitting their budget for consideration, Corrections fully funds their authorized employment level even though Corrections' actual employment level has historically been significantly less than the authorized level. This policy results in an overstated budget in several programs, with the biggest impact on the Secure Confinement program in the Institutions Division. Corrections average number of vacant positions is close to 1,000, resulting in annual vacancy savings of $20-$25 million. Corrections transfers these savings to other programs to fund training and information technology costs, as well as inflationary costs such as fuel, rent and utilities. Although the Department of Planning and Budget has given Corrections the authority to make these transfers, the Budget Bill reviewed and approved by the General Assembly does not reflect these anticipated transfers.

We have included a budget and actual expense analysis for the information technology program (Program 37902) to provide an example of how the current budget policy affects the ability to have a sound link between the budget and actual expenses in this program.

	2003	**2004**	**2005**
Budget approved by the General Assembly	$ 6.7	$ 5.3	$ 6.8
Actual expenses	18.7	14.5	16.1
Differences	$12.0	$ 9.2	$ 9.3

(Amounts in millions)

Planning and Budget, who establishes statewide budget development policies, should work with Corrections to find some mechanism to quantify and disclose these anticipated transfers as part of the Budget Bill for the General Assembly's consideration. Corrections and Planning and Budget's efforts should strive to improve the budget transparency for Corrections, resulting in a program budget that more accurately reflects administrative expenses.

Strengthen Procedures over Agency Transaction Vouchers

We reviewed a sample of 15 Agency Transfer Vouchers (ATVs) and found six ATVS that did not document who prepared the transaction. ATVs make adjustments or correct errors for financial information recorded in CARS. Ideally, documentation supporting the ATV should indicate who prepared as well as approved the ATV to ensure that one person did not move funds around without proper approval. Corrections should require the preparer to sign the ATV certifying that they have checked the codes and amounts as correct.

Improve Supporting Documentation on Lease Payments

Corrections needs to improve controls to ensure that all of its leases are recorded in the Lease Accounting System (LAS) and that lease numbers are referenced on the payment vouchers. All ten lease payments sampled did not reference a lease number; using only a purchase order and invoice to process the payment. The lack of reference to the lease number shows a lack of an audit trail from the payment to the actual lease. This could lead to payments being miscoded in CARS, leases not being correctly entered and updated in LAS, and lease payments not being made properly or timely.

Commonwealth Accounting Policies and Procedures (CAPP) Manual section 31220, Lease Reporting, requires all leases must be recorded in LAS and rent expense must be reviewed and reconciled for proper disclosure. Corrections should implement controls to ensure that lease numbers are included on the payment vouchers to identify the lease associated with the payment; without the documentation/cross reference to the actual lease, we could not determine whether all leases were recorded on LAS.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

February 24, 2005

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Lacey E. Putney
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, 2005. Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate audit report we will issue. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope and Methodology

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

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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenue	Inmate trust funds	Capital Outlay
Expenditures	Commissary funds	
Contract management	Inventory	

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 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.

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 accounting principles generally accepted in the United States of America. 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 require management's attention and corrective action. These matters are described in the section entitled "Internal Control Findings and Recommendations." The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters 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 "Ensure Proper Recording and Tracking of Leases." This finding is included in the section entitled "Internal Control Findings and Recommendations" and is entitled "Improve Supporting Documentation on Lease Payments." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter with the exception of the aforementioned finding.

EXIT CONFERENCE

We discussed this report with management on April 5, 2006. Management's response has been included at the end of this report.

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

AUDITOR OF PUBLIC ACCOUNTS

LCR:sks
sks: 49

COMMONWEALTH of VIRGINIA

GENE M. JOHNSON
DIRECTOR

Department of Corrections

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

April 10, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

RE: APA Audit Report on the Department of Corrections and Virginia Parole Board for Fiscal Year Ended June 30, 2005

Dear Mr. Kucharski:

Enclosed is the Department of Corrections' response to the Auditor of Public Accounts (APA) report on the examination of the Department and the Virginia Parole Board for the fiscal year ended June 30, 2005. We appreciate the opportunity to respond to the report findings prior to formal publication of the report.

We believe that our responses specifically address the issues raised by the APA, and trust that actions already taken and currently under way will serve to reduce costs and strengthen our control environment.

Please let me know should you have any questions regarding this response.

Sincerely,

N. H. Scott
Deputy Director
Administration

Enclosure

Cc: Mr. Gene M. Johnson
Mr. David A. Von Moll
Mr. Theodore C. Link

APA AUDIT FOR FISCAL YEAR 2005
INTERNAL CONTROL AND COMPLIANCE FINDINGS,
RECOMMENDATIONS AND DOC RESPONSES

APA FINDING #1 – ADDRESS EFFECT OF VACANCY SAVINGS ON BUDGET

Current budget development practices result in a budget that does not provide a sound link between the program budget and administrative expenses. When submitting their budget for consideration, Corrections fully funds their authorized employment level even though Corrections' actual employment level has historically been significantly less than the authorized level. This policy results in an overstated budget in several programs, with the biggest impact on the Secure Confinement program in the Institutions Division. Corrections' average number of vacant positions is close to 1,000, resulting in annual vacancy savings of $20 - $25 million. Corrections transfers these savings to other programs to fund training and information technology costs, as well as inflationary costs such as fuel, rent and utilities. Although the Department of Planning and Budget has given Corrections the authority to make these transfers, the Budget Bill reviewed and approved by the General Assembly does not reflect these anticipated transfers.

We have included a budget and actual expense analysis for the information technology program (Program 37902) to provide an example of how the current budget policy affects the ability to have a sound link between the budget and actual expenses in this program.

	2003	2004	2005
Budget approved by the General Assembly	$ 6.7	$ 5.3	$ 6.8
Actual expenses	18.7	14.5	16.1
Differences	$12.0	$ 9.2	$ 9.3

(Amounts in millions)

Planning and Budget, who establishes statewide budget development policies, should work with Corrections to find some mechanism to quantify and disclose these anticipated transfers as part of the Budget Bill for the General Assembly's consideration. Corrections and planning and Budget efforts should strive to improve the budget transparency for Corrections, resulting in a program budget that more accurately reflects administrative expenses.

DOC RESPONSE: We disagree with the auditor's recommendation. For over a decade, the agency has been utilizing vacancy savings to fund areas that receive inadequate funding. Some of these areas include training, information technology costs, rent, fuel, and utilities. The transfer of these savings to central administration results from applying an equal vacancy factor to all subprograms and creates a pool of resources used to manage shortfalls. This process is fully documented and done with the coordination and approval of the Department of Planning and Budget. The utilization of this savings is also effectively communicated to members of the Senate Finance and House Appropriations Committees.

Utilizing this methodology provides the agency with a simple, yet effective and efficient process to react to shortages as they occur throughout the fiscal year. The process is supported by detailed worksheets and analyses that provide a satisfactory audit trail.

We feel there would be no benefit to changing this process. Instead, a change would result in a more cumbersome process with more entries into our ledger that could result in additional errors. This would require additional reconciliations while providing no additional information to either the agency or to other interested outside stakeholders.

APA FINDING #2 – IMPROVE SUPPORTING DOCUMENTATION ON LEASE PAYMENTS

Corrections needs to improve controls to ensure that all of its leases are recorded in the Lease Accounting System (LAS) and that lease numbers are referenced on the payment vouchers. All ten lease payments sampled did not reference a lease number; using only a purchase order and invoice to process the payment. The lack of reference to the lease number shows a lack of an audit trail from the payment to the actual lease. This could lead to payments being miscoded in CARS, leases not being correctly entered and updated in LAS, and lease payments not being made properly or timely.

Commonwealth Accounting Policies and Procedures (CAPP) Manual section 31220, Lease Reporting, requires all leases must be recorded in LAS and rent expense must be reviewed and reconciled for proper disclosure. Corrections should implement controls to ensure that lease numbers are included on the payment vouchers to identify the lease associated with the payment; without the documentation/cross reference to the actual lease, we could not determine whether all leases were recorded on LAS.

DOC RESPONSE: Management concurs with the auditor's recommendations.

ACTION PLAN: Management will require that lease numbers are included on the payment vouchers in order to identify the lease associated with the payment.

RESPONSIBLE POSITION: DOC Controller

DUE DATE: 4th Quarter of FY '06

APA FINDING #3 – STRENGTHEN PROCEDURES OVER AGENCY TRANSACTION VOUCHERS

We reviewed a sample of 15 Agency Transfer Vouchers (ATVs) and found six ATVs that did not document who prepared the transaction. ATVs make adjustments or correct errors for financial information recorded in CARS. Ideally, documentation supporting the ATV should indicate who prepared as well as approved the ATV to ensure that one person did not move funds around without proper approval. Corrections should require the preparer to sign the ATV certifying that they have checked the codes and amounts as correct.

DOC RESPONSE: Management concurs with the auditor's recommendations.

ACTION PLAN: Management will require that the preparer of Agency Transfer Vouchers sign the ATVs in order to certify that the codes and amounts are correct.

RESPONSIBLE POSITION: DOC Controller

DUE DATE: 4th Quarter of FY '06

DEPARTMENT OF CORRECTIONS

Gene Johnson, Director

John Jabe, Deputy Director

N.H. “Cookie” Scott, Deputy Director

James R. Camache, Deputy Director

H. Paul Broughton, Deputy Director

Ted Link, Controller

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