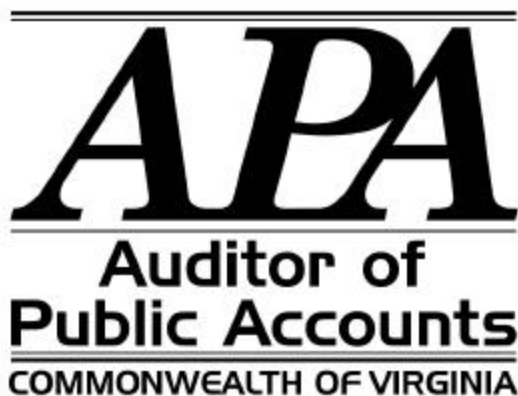


**DEPARTMENT OF JUVENILE JUSTICE
RICHMOND, VIRGINIA**

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



AUDIT SUMMARY

Our audit of the Department of Juvenile Justice for the year ended June 30, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- three internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- no instances of non-compliance that are required to be reported; and
- inadequate implementation of corrective action with respect to the prior audit findings, “Improve Capital Outlay Planning” and “Improve Internal Controls Over Payroll.”

- TABLE OF CONTENTS -

AUDIT SUMMARY

AGENCY INFORMATION:

Background Information

Financial Information

Juvenile Correctional Centers

Financial Assistance to Localities

Court Service Units

Systems Initiative

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

INDEPENDENT AUDITOR'S REPORT

OFFICIALS PAGE

AGENCY INFORMATION

Background Information

The Department provides custody and care for juveniles in the correctional system. A juvenile enters the juvenile system when police, victims, or parents report a delinquent or status offense. A juvenile's first encounter with the system is an intake officer at a court service unit. The intake officer has discretionary power to divert cases from the judicial process. The officer could resolve the case through counseling, referral to other social agencies, or community service. If the decision is filing the charges with the court, the intake officer makes the initial decision about where the child will reside pending judicial proceedings. Many juveniles return to parents or guardians, but others remain in a secure detention facility or a shelter.

If the juvenile is found guilty at the adjudication hearing, there is a social investigation to assist the court in selecting the most appropriate dispositional sanctions and services for the juvenile and the family. The juvenile may receive conditional dispositions such as probation, participation in court service unit programs, referral to local services or facilities, referral to other agencies, private placement, or boot camp placement. The juvenile could also receive custodial commitment to state care. State care includes an initial evaluation at the Reception and Diagnostic Center and placement at one of the seven correctional facilities.

The Department has a central office in Richmond and three regional offices. The central office provides administrative support while the regional offices oversee court service units. The Department also assists in funding the following facilities and programs.

- Seven juvenile correctional centers (JCC) provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs.
- A Reception and Diagnostic Center provides psychological, educational, social, and medical evaluations for committed youth.
- Thirty-five Juvenile and Domestic Relations Court Service Units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates 32 units and localities operate three.
- One privately operated boot camp provides a five to ten month program that consists of four to six months of residential treatment and six months of aftercare in the community. The boot camp was eliminated effective December 31, 2002.
- Three halfway houses provide 24-hour residential and treatment services for youth returning to their communities.
- Twenty-four secure detention homes provide temporary care of juveniles who require secure custody pending court disposition or placement. The Department operates one home and the remaining homes are under local administration.
- Forty-four Offices on Youth Services, and various residential and non-residential programs administered by localities.

Financial Information

The Department's main funding source is General Fund appropriations. General Fund appropriations of \$221 million accounted for approximately 96 percent of the Department's revenue in fiscal year 2002. The Department also receives federal grants and some miscellaneous revenues. The following chart shows General Fund original and adjusted appropriations, as well as operating expenses for the last four fiscal years. The Department also receives capital project appropriations, which the chart does not include.

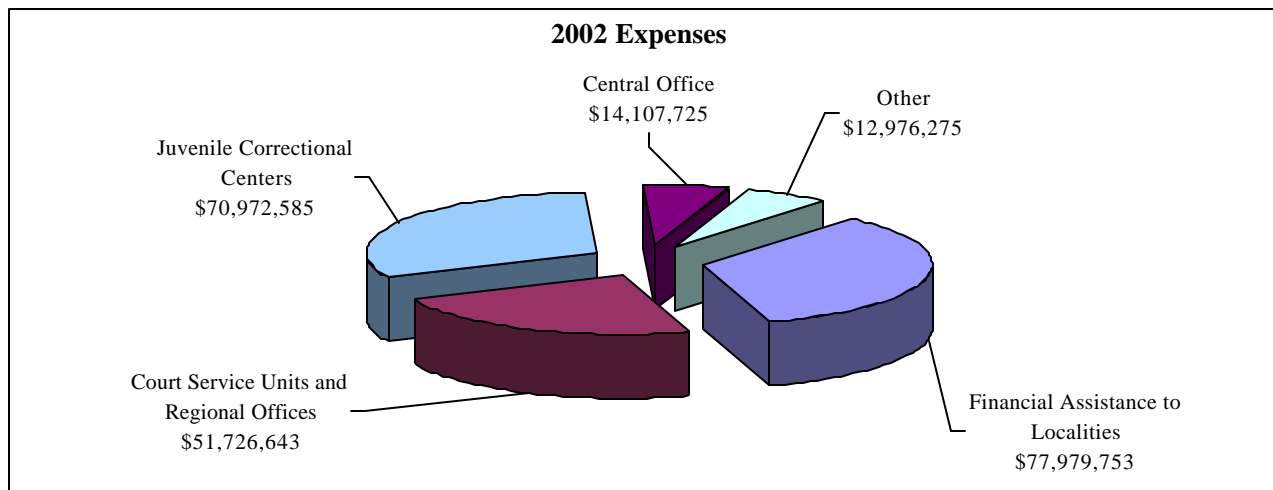
	1999	2000	2001	2002
Original appropriations	\$183,157,143	\$185,022,421	\$227,159,642	\$212,479,928
Adjusted appropriations	\$211,115,234	\$214,449,475	\$240,484,967	\$221,424,180
Total expenses	\$192,681,608	\$201,596,741	\$216,273,544	\$220,528,440

Source: Commonwealth Accounting and Reporting System

In each of the last four years, operating appropriations have exceeded expenses resulting in carry forward balances. Most of these balances represent the Commonwealth's share of local facility construction projects, which may span several years. The Commonwealth typically appropriates these funds in the first year of the project; although the locality does not receive payment until the project's completion, which may take several years. Although appropriations had increased from 1999 to 2001, adjusted appropriations for fiscal year 2002 decreased by \$19 million due to statewide budget reductions. As part of the reductions, the Department's funding for the construction or enlargement of local and regional detention centers and group homes switched from appropriations to bond issuances through the Treasury Board.

The Department will continue to experience budget reductions in 2003 and 2004 due to statewide budget actions. Budget reductions estimates for fiscal year 2003 and 2004 are \$41.9 million and \$48.4 million, respectively. The Department plans to implement these reductions by eliminating or reducing various programs. The planned actions include reductions in Virginia Juvenile Community Crime Control Act (VJCCCA) funding, reductions in detention block grant funding, elimination of boot camp beds, elimination of Offices on Youth, elimination of the Substance Abuse Reduction Effort program, and elimination of the Leader program.

A substantial amount of the Department's expenses are in one of three areas: juvenile correctional centers, financial assistance to localities for the VJCCCA and detention, and court services units. The following chart shows 2002 General Fund expenses by area. In addition, we discuss these three major areas in more detail below.



Juvenile Correctional Centers

The Department operates seven correctional centers and a reception and diagnostic center for juveniles committed to state care. These facilities provide programs to address the treatment, disciplinary, medical, educational, and recreational needs of the juveniles. Over the last several years, the Department has increased capacity through the expansion and renovation of existing facilities, and construction of a new facility, Culpeper Correctional Center. The increase in capacity alleviated overcrowding at several facilities. Admissions peaked in 1995 at over 1,800, but have gradually decreased in recent years.

The following chart shows overall admission and capacity information for the juvenile correctional centers since 1999. As shown below, juvenile correctional center capacity is 1,402 assuming all facilities are fully operational. The Department's current funding level supports beds for 1,243 juveniles; therefore some facilities are not fully operational. An example is Culpeper Correctional Center, which operated with only two of four units open during 2002. Similar information for 2002 is shown on the following page by individual facility.

	1999	2000	2001	2002
Admissions	1,579	1,458	1,261	1,220
Capacity	1,243	1,402	1,402	1,402
Average daily population	1,278	1,322	1,171	1,139
Annual cost per ward	\$44,432	\$50,349	\$60,114	\$59,403

Source: Per Capita Report prepared by the Department

Note: The annual cost per ward does not include costs incurred by the Department of Correctional Education for providing education for the juveniles. These education costs were approximately \$18,000 per juvenile in FY 2002.

The Department expects the budget reductions will reduce funding to community programs, thus increasing correctional center admissions starting in 2003. The most recent population forecast estimates that both admissions and the average daily population will rise for the next several years, reaching close to capacity by 2005.

The following tables include capacity and cost information for each juvenile correction center. Personnel costs represent a significant portion of each center's operating expenses. The Department also operates a behavioral services unit, infirmary, and maintenance department, which benefit all the correctional centers. The Department allocates these costs to the various centers based on each facility's average daily population.

	Barrett Correctional Center	Beaumont Correctional Center	Bon Air Correctional Center	Hanover Correctional Center
Programs available*	SA	AM, SO, SA	AM, SO, SA, ISP	AM, SO, SA
Average daily population	104	288	274	134
Capacity	98	322	280	200
Juvenile correctional center expenses:				
Correctional center operating expenses	\$6,201,050	\$14,825,134	\$10,314,298	\$7,576,443
Behavioral services unit, infirmary, and maintenance	<u>421,201</u>	<u>1,166,408</u>	<u>3,381,141</u>	<u>542,701</u>
Total expenses	<u><u>\$6,622,251</u></u>	<u><u>\$15,991,542</u></u>	<u><u>\$13,695,439</u></u>	<u><u>\$8,119,144</u></u>
Per capita expenses:				
Annual cost per juvenile	\$63,675	\$55,526	\$49,983	\$60,591
Daily cost per juvenile	\$174	\$152	\$137	\$166

	Natural Bridge Correctional Center	Oak Ridge Correctional Center	Culpeper Correctional Center	Reception and Diagnostic Center
Programs available*	AM, SA, ILP	AM, SA, SO, BP	AM, SO, SA, ILP	Juvenile Overall Evaluation
Average daily population	58	39	95	147
Capacity	71	40	225	166
Juvenile correctional center expenses:				
Correctional center operating expenses	\$3,724,755	\$2,631,292	\$7,365,002	\$6,595,571
Behavioral services unit, infirmary, and maintenance	<u>234,899</u>	<u>481,252</u>	<u>384,749</u>	<u>1,813,972</u>
Total expenses	<u><u>\$3,959,654</u></u>	<u><u>\$3,112,544</u></u>	<u><u>\$7,749,751</u></u>	<u><u>\$8,409,543</u></u>
Per capita expenses:				
Annual cost per juvenile	\$68,270	\$79,809	\$81,576	\$57,208
Daily cost per juvenile	\$187	\$219	\$223	\$57

Source: Commonwealth Accounting and Reporting System
Fiscal Year 2002 Per Capita Report prepared by the Department

*Legend: SA – Substance Abuse, AM – Anger Management, SO – Sex Offenders, ISP – Intensive Services Program, ILP – Independent Living Programs, BP – Behavioral Program

Financial Assistance to Localities

The Department makes payments to localities for the construction, maintenance, and operation of local or regional detention centers, group homes, and numerous other related facilities. These facilities house juveniles who are awaiting sentencing or provide housing for juveniles who require a less secure environment. There are 23 local detention centers statewide, which can house over 950 juveniles. The Department also funds various group homes and day centers, which also house delinquent juveniles. Localities request funds from the Department and the Board approves these requests. These payments come almost entirely from general fund appropriations in the form of block grants and VJCCA funds.

Court Service Units

The Department has 35 Court Service Units (CSUs) located throughout the state. The CSUs coordinate services for juveniles in the court system. They provide a variety of services including intake services, domestic relations, investigations, probation services, and counseling. During fiscal 2002, CSUs processed over 219,000 complaints involving juveniles. The CSUs also supervise thousands of juveniles on probation or parole. Beginning in fiscal year 2002, the Department began receiving some federal funds for administrative costs incurred by the parole and probation officers. The Department of Social Services reimburses the Department these costs through the federal foster care program.

Systems Initiative

The Department began implementing a new financial system, Oracle Financials, in May 2001. The Department began using the accounts payable, purchasing, and general ledger modules, but experienced many problems during the implementation. Shortly after agency-wide implementation, the Department drastically scaled back the use of Oracle until it could resolve these problems. By June 2002, the Department completely discontinued processing transactions in Oracle.

The Department has spent approximately \$768,000 on the Oracle Financial implementation through fiscal year 2002. Currently the new system is not operational and the Department is evaluating whether they will continue with this system implementation.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Reconcile Leave Liability Information

The Department does not have procedures to reconcile internal leave records to the Commonwealth Integrated Personnel and Payroll System (CIPPS). We reviewed the year-end leave balances for seven employees and found the Department's internal leave records did not agree to CIPPS leave records for six of the seven tested. CIPPS is the system of record used to pay leave balances upon termination and report leave liability at year-end. As of June 30, 2002, the Department's leave liability totals approximately \$11 million.

The Department's internal controls should include procedures to reconcile internal leave records to CIPPS leave records on a regular basis. This control procedure is necessary to ensure the integrity of leave balance information. This information is relied upon to grant employee leave, pay leave to terminated employees, and to calculate the Department's year-end liability.

Improve Capital Outlay Planning

As reported in the prior year audit, the Department needs to improve its capital outlay project planning. The Department has maintained a contractual relationship with an engineering firm to complete the six-year capital plan because it lacked resources to prepare one. The contractor and the Department failed to update the plan annually and the plan did not reflect actual capital requests. The prior plan includes the building of a new facility even though current facilities are not at capacity and population forecast did not reflect the need for a new facility.

The Department is developing a new six-year plan that will better reflect the needs of the Department and the facilities. The new plan will concentrate on capital improvements, physical plant maintenance, and equipment repair and replacement. To assist in the process, the Department is soliciting a new contract to provide engineering services for the plan. The Department needs to continue with the development of the six-year plan and make adjustments to the plan to reflect the current needs of the Department.

Properly Document Construction In Progress

The Department needs to properly document Construction In Progress. In the current year, the Department reported only \$99,250 in construction in progress; however, there has been over \$1.9 million spent on capital projects that are in progress.

The Department should develop and enforce procedures for compiling and recording Construction in Progress and follow these procedures. The Department maintains multiple projects at the various facilities and proper documentation of Construction In Progress will facilitate the proper capitalization of the Department's investment in assets.

March 28, 2003

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

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

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Juvenile Justice** for the year ended June 30, 2002. 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 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 audit findings from prior year reports.

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

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

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

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

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than 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.

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

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has not taken adequate corrective action with respect to the previously reported finding "Improve Capital Outlay Planning." Accordingly, we included this finding in the "Internal Control Findings and Recommendations" section. The Department has taken corrective action to partially address the previously reported finding "Improve Internal Controls Over Payroll." Accordingly, we have included the finding "Reconcile Leave Liability Information" in the "Internal Control Findings and Recommendations" section. The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in 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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 1, 2003.

AUDITOR OF PUBLIC ACCOUNTS

LCR/kva
kva:

DEPARTMENT OF JUVENILE JUSTICE
Richmond, Virginia
As of June 30, 2002

David Marsden, Acting Director

Stephen Pullen, Acting Deputy Director

BOARD MEMBERS

Kenneth G. Feng
Jorge G. Lozano
V. "Buck" Maddra

Richard A. Sparks, Jr.
Alexander Vogel
Thomas A. Wilkins