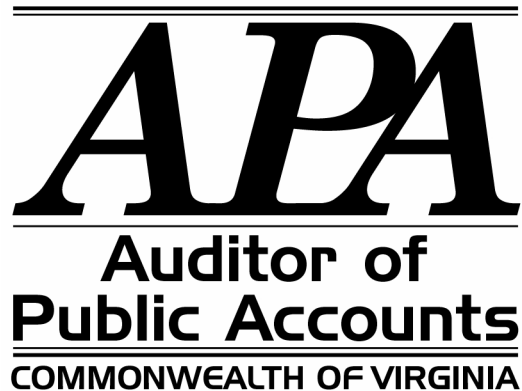


**DEPARTMENT OF CORRECTIONS
AND VIRGINIA PAROLE BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2004, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- certain internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with selected provisions of applicable laws and regulations; and
- inadequate implementation of corrective action with respect to the prior audit findings “Follow Established Inventory Procedures” and “Ensure Proper Recording and Tracking of Leases.”

This report does not include Virginia Correctional Enterprises. Findings, results, and recommendations related to Virginian Correctional Enterprises will be issued in a secretary-wide report for public safety agencies.

- TABLE OF CONTENTS -

| | <u>Pages</u> |
|--|--------------|
| AUDIT SUMMARY | |
| AGENCY BACKGROUND AND FINANCIAL INFORMATION | |
| Financial Information | 1-4 |
| Information Systems | 4 |
| Inmate Population and Prison Capacity | 5-6 |
| Prison Privatization | 7 |
| Comparison of Major Correctional Center Costs | 7-17 |
| INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS | 18-20 |
| INDEPENDENT AUDITOR'S REPORT | 21-23 |
| AGENCY RESPONSE | 24-28 |
| AGENCY OFFICIALS | 29 |

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. Corrections coordinates activities that relate to parole with the Parole Board. Corrections processes the Parole Board's financial transactions and prepares its financial reports.

Corrections administers operations through a central administrative agency, two central divisions, and three regional offices. The two central divisions are Institutions and Community Corrections. The Institutions division oversees the operations of 27 major correctional centers, six work centers, two reception and classification centers, one treatment center, and 13 field units. During fiscal year 2004, Corrections had an average daily population of 30,207 inmates, including 839 out-of-state inmates.

The Community Corrections division had approximately 810 inmates in alternative programs, including four detention centers and five diversion centers. In addition, division staff supervised almost 48,000 probationers and parolees, which includes approximately 4,500 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.

Financial Information

Corrections' primary funding comes from general fund appropriations that pays over 90 percent of the operating expenses. Corrections also receives monies through federal grants and for housing out-of-state inmates. Correction's largest operating expense is payroll costs for over 11,500 individuals, most of who work in the Institutions division. The following schedule compares selected operating statistics for the past six fiscal years.

| | Fiscal Year 1999 | Fiscal Year 2000 | Fiscal Year 2001 | Fiscal Year 2002 | Fiscal Year 2003 | Fiscal Year 2004 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Average daily inmate population | 29,105 | 31,406 | 31,670 | 32,374 | 31,645 | 31,768 |
| Average annual cost per inmate | \$18,666 | \$19,428 | \$20,979 | \$19,913 | \$20,142 | \$20,401 |
| Total operating budget (in millions) | \$672 | \$729 | \$793 | \$777 | \$768 | \$774 |

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

The operating budget increased in the years 1999-2001 because Corrections opened several new facilities during this time. The budget decreases in 2002 and 2003 were the result of budget reductions discussed in more detail later in this section.

The following table details the original budget, final budget, and actual operating expenses in fiscal year 2004 by division and program. Overall, Corrections' original budget increased by over \$18 million. Most of the increase is due to a \$10 million transfer from central appropriations for salary and fringe benefit

increases approved by the General Assembly. The remainder of the budget increase is due to additional general funds of \$3 million to restore prior year budget reductions and \$4 million in federal grant revenues that was not included in the original budget.

| <u>Program</u> | <u>Original Appropriations</u> | <u>Adjusted Appropriations</u> | <u>Expenses</u> |
|---|------------------------------------|------------------------------------|-----------------------|
| <u>Division of Institutions:</u> | | | |
| Administrative and support services | \$ 259,122,347 | \$ 254,179,125 | \$ 253,801,583 |
| Secure confinement | 366,421,577 | 373,778,898 | 372,286,057 |
| Classification services | 7,000,925 | 7,968,798 | 7,968,797 |
| Agribusiness | 6,054,015 | 7,285,984 | 7,285,889 |
| Corrections special reserve fund | <u>8,402</u> | <u>8,402</u> | <u>-</u> |
| Total | <u>\$ 638,607,266</u> | <u>\$ 643,221,207</u> | <u>\$ 641,342,326</u> |
| <u>Division of Community Corrections:</u> | | | |
| Administrative and support services | 8,986,349 | 7,726,106 | 7,726,020 |
| Community based custody | 6,612,248 | 4,140,258 | 4,140,258 |
| Probation and reentry services | 53,836,256 | 58,066,648 | 57,400,861 |
| Secure confinement | 13,051,282 | 13,469,188 | 12,292,066 |
| Financial assistance for confinement in local facilities | - | 4,813 | 4,813 |
| Confinement and custody research planning and coordination | <u>296,303</u> | <u>28,200</u> | <u>28,200</u> |
| Total | <u>\$ 82,782,438</u> | <u>\$ 83,435,213</u> | <u>\$ 81,592,218</u> |
| <u>Central Administration:</u> | | | |
| Administrative and support services | 29,181,658 | 41,222,096 | 40,839,554 |
| Criminal justice training, education and standards | 3,265,590 | 4,926,285 | 4,926,285 |
| Confinement and custody research planning and coordination | 604,047 | 465,795 | 465,794 |
| Vending facilities, snack bars and cafeterias | <u>482,829</u> | <u>585,751</u> | <u>585,751</u> |
| Total | <u>\$ 33,534,124</u> | <u>\$ 47,199,927</u> | <u>\$ 46,817,384</u> |
| <u>Virginia Parole Board</u> | | | |
| Parole and reentry services | <u>\$ 623,599</u> | <u>\$ 709,971</u> | <u>\$ 631,636</u> |

The majority of Corrections' expenses are for payroll and fringe benefits which account for over 67 percent of Corrections' total operating budget. Although Corrections has an authorized employment level of 12,389 positions, the actual average number of employees during the year was only 11,386, resulting in approximately 1,000 vacant positions. Most of these vacancies are in the Institutions division 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.

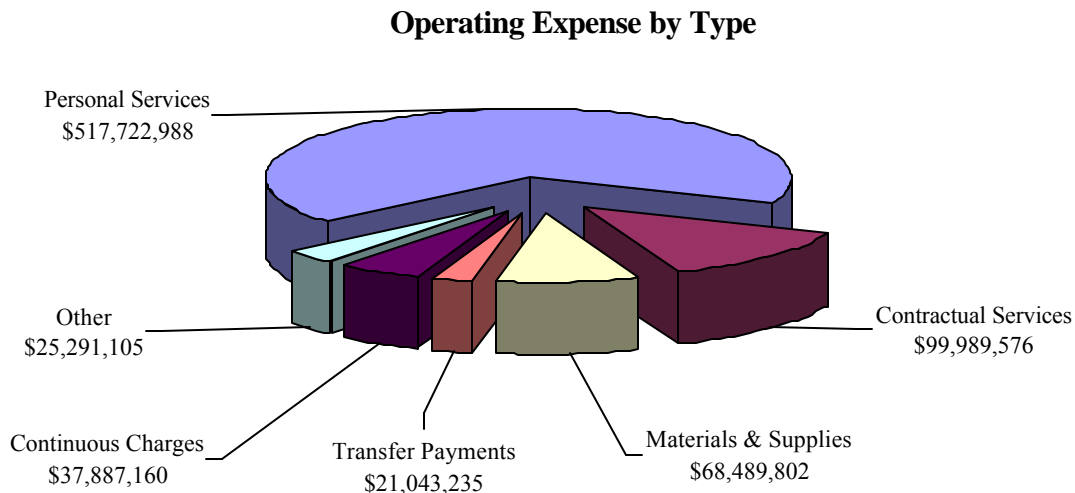
Summary of Authorized and Actual Positions for Fiscal Year 2004

| | <u>Authorized Employment Level</u> | <u>Actual Employment Level</u> |
|-----------------------------------|--|--|
| Division of Administration | 292 | 321 |
| Division of Community Corrections | 1,442 | 1,271 |
| Division of Institutions | <u>10,655</u> | <u>9,794</u> |
| Total | <u><u>12,389</u></u> | <u><u>11,386</u></u> |

Source: Chapter 1042, Appropriations Act and Management Information Summary Report

As a result of the vacant positions, Corrections had vacancy savings of \$18 million in 2004. These savings were used for other things 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 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 2004.



Corrections uses the Commonwealth Accounting and Reporting System (CARS) as its primary financial accounting system, but 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 \$6.6 million at June 30, 2004. 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. Most of the institutions (21 of 27) 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 2004, Corrections spent \$24 million for capital outlay of which \$12.6 million was the reconstruction of St. Brides Correctional Center. This project has two phases which is the building of a new unit and the tearing down of an old unit. The construction should not increase the center capacity, but will replace older facilities. Corrections finalized the construction contract in January 2001 and construction began in June 2001. The project's funding is a federal grant that requires a 10 percent cash match of the total expenses. Corrections estimates the total project cost approximately \$45 million with an estimated completion date in fiscal year 2005.

Information Systems

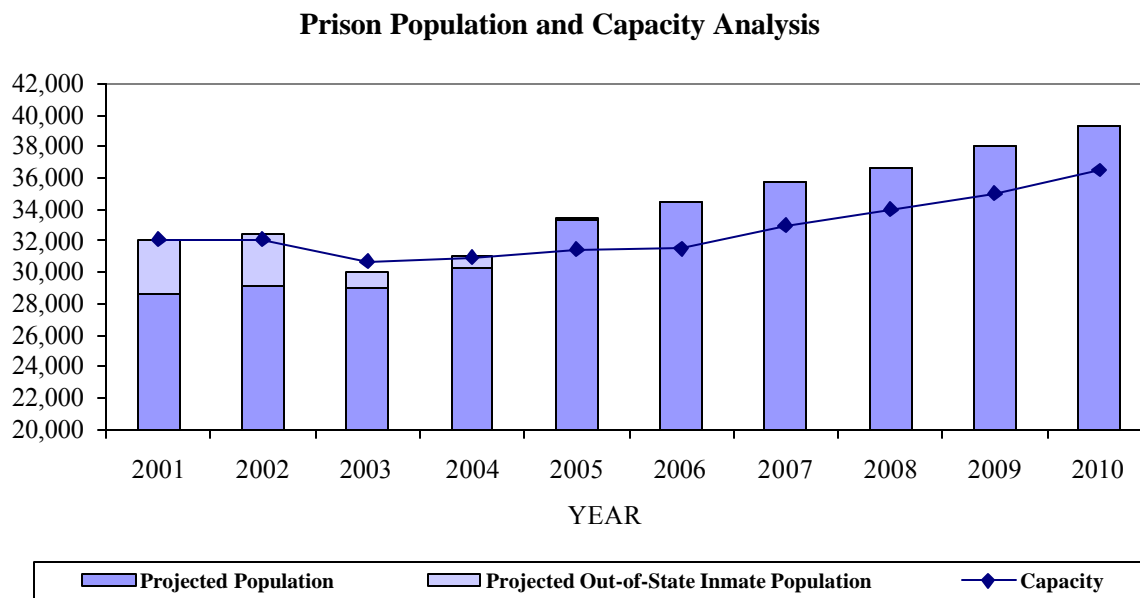
Corrections provides information technology services through 27 different applications and systems operating on a DEC VAX Cluster, an IBM Mainframe, NT servers and personal computers. Many of Corrections' critical systems are using outdated older technologies. Corrections first began working on development of an enterprise-wide system to replace and integrate its various systems in 2001. Corrections has suspended this project, named ICIS, for several reasons including the prohibitive cost of the system, the vendor delaying the development efforts, and uncertainty with changes in administrations and information technology.

Although Corrections has suspended the ICIS system development effort, there is still a need to replace its older critical systems, specifically its offender-based management system. Corrections is purchasing a new offender-based management system (OMS) and anticipates the total system cost of approximately \$17 million. As part of this effort, Corrections issued a Request for Proposal in February 2004 for the time computation portion of an OMS and has issued a contract. Corrections anticipates the total cost of this module is less than \$1 million, and expects to complete this module in early Fiscal 2006.

Virginia Information Technology Agency (VITA) assumed operations of Corrections' Center for Information Technology (CIT) in September 2004. Under this change in operations, 58 information technology staff as well as technology assets transferred to VITA. Corrections currently pays VITA for maintaining the information technology resources and providing support for those resources. Corrections maintains the responsibility for developing any 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. Prison capacity actually decreased in 2003 when Corrections closed the Staunton Correctional Center in response to budget reductions. The following graph of population and capacity forecasts through 2010, shows a capacity shortfall of approximately 2,000 inmates in 2005 increasing to 3,800 in 2010. Information presented in the graph for fiscal years 2001-2004 represents actual population; information for fiscal years 2005 and beyond is from Corrections' master plan which incorporates the population projections issued by the Secretary of Public Safety in October 2004.



Source: Corrections State Responsible Offender Population Forecast and Master Plan

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 populations of out-of-state inmates. In recent years, Corrections has contracted with other states to house their inmates in an effort to address the prison excess capacity. The out-of-state inmate population peaked in 2001 and has been declining since then, as shown in the graph above.

In analyzing the information in this graph, it is important to understand the assumptions made in the population projections and capacity amounts. Prison capacity increases in the later years reflect construction of new prisons, increasing prison capacity by almost 5,000 by 2010. 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.

The projected population in the graph represents state responsible inmates only, not inmates who are the responsibility of local jails. The projection also assumes there are approximately 500 state-responsible inmates held in local jails, referred to as non-compliance inmates. Currently, there are approximately 1,400 non-compliance inmates housed in local jails.

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 850 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.

Restricting Corrections' efforts are the limitation of each of the facilities' water and wastewater treatment plants that are operating near or at their capacity, therefore preventing the housing of additional inmates at these facilities. Currently, 12 of 46 facilities restrictions limit capacity and approximately 21 of 46 facilities are at the maximum capacity levels.

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. The Federal Bureau of Prisons contract ended in fiscal year 2003; Vermont and New Mexico's contract ended in fiscal year 2004; and the Connecticut contract ends in fiscal year 2005. 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 \$43 and \$75 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. Corrections had relied solely on the out-of-state inmate revenues to cover all of the expenses for Sussex II and St. Brides, as well as the additional expenses directly associated with housing the inmates. Also, Corrections had returned some of these funds to the General Fund of the Commonwealth as shown below. The following table shows out-of-state inmate population and financial information through 2005.

Out of State Inmate Population and Revenue Information

| | 2000 (Actual) | 2001 (Actual) | 2002 (Actual) | 2003 (Actual) | 2004 (Actual) | 2005 (Projected) |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|
| 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 | \$500,000 |
| Total amount returned to the general fund | \$21,383,807 | \$6,900,000 | \$5,868,000 | \$220,396 | \$965,132 | \$0 |

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, Corrections Corporation of America (CCA), 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 used bond financing to pay for the design and construction of the facility. Corrections leases the facility from the Authority, and has the option to purchase the facility for \$1 at the end of the bond term. The original contract with CCA 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 Lawrenceville. 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 determined that it was cost beneficial to continue with privatization, and awarded a new contract to The Geo Group (formerly the Wackenhut Correctional Corporation) in March 2003. The contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The facility houses only males 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.

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 discussed above, Corrections operates all other state correctional facilities. In fiscal year 2004, Corrections had an average daily population of 25,100 inmates in its 27 major correctional centers. These facilities operate at various security levels ranging from minimum (level 2) to super-maximum (level 6). Corrections has only one level 6 facility (Red Onion) because it changed Wallens Ridge from a level 6 to a level 5 facility in March 2003 and moved inmates from Red Onion to Wallens Ridge. Corrections made this change because they did not need as many maximum security beds. The following table compares selected information for the two facilities between 2003 and 2004.

| | Red Onion Correctional Center | | Wallen's Ridge Correctional Center | |
|----------------------------------|--|-------------|---|-------------|
| | 2003 | 2004 | 2003 | 2004 |
| Average daily population | 922 | 744 | 887 | 1,141 |
| Average employment level | 400 | 415 | 397 | 403 |
| Average daily expense per inmate | \$63 | \$81 | \$64 | \$52 |

As the table above shows, although inmates were transferred from Red Onion, the overall staffing level and expenses did not decrease as these are considered fixed costs and are not directly impacted by changes in the inmate population level. As a result, the average daily expense per inmate increased at Red Onion, and decreased at Wallen's Ridge. Corrections made one classification change in 2004, changing the Mecklenburg Correctional Center from a level 3 to a level 2 facility. This change did not result in significant changes to the population or staffing of the facility.

Corrections receives an appropriation in its Institutions division 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 2004 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 Commonwealth Accounting and Reporting System 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 \$161. On average, the daily expense per inmate is \$59 across all facilities which results in an annual average expense per inmate of \$21,500. 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 are a total of 8,345 employees who work in the major correctional centers, most of which who 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 health 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. Powhatan has a 58 bed infirmary, including a 12-bed psychiatric unit, which makes it the largest medical facility in Corrections. In addition, Deerfield has an “assisted living” section (30 beds) for prisoners that may be lacking in one or more of the “activities of life.” Marion also has specialized facilities to house mentally ill inmates.

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 2004, inmate medical expenses amounted to approximately \$97.3 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 2004

| | |
|--|----------------------|
| Medical expenses paid by facilities (primarily personnel and supplies) | \$ 61,731,409 |
| Medical expenses paid centrally (primarily Anthem contract) | 19,726,654 |
| Medical and dental supplies paid centrally (includes pharmacy contract) | 13,954,128 |
| Miscellaneous medical expenses | <u>1,888,484</u> |
| Total medical expenses | <u>\$ 97,300,675</u> |

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 inmate remains at the facility, saving on transportation costs. In fiscal year 2004, Corrections collected inmate co-payments of \$491,000 to help offset the costs of the telemedicine program.

| | Red Onion Correctional Center <u>Security Level 6</u> | Wallens Ridge Correctional Center <u>Security Level 5</u> | Sussex I Correctional Center <u>Security Level 5</u> | Sussex II Correctional Center <u>Security Level 4</u> |
|---------------------------------------|---|---|--|---|
| Average daily population: | 744 | 1,141 | 1,193 | 1,282 |
| Average employment level: | 415 | 403 | 347 | 358 |
| Expenses: | | | | |
| Administration | \$ 1,692,323 | \$ 1,281,858 | \$ 1,980,655 | \$ 1,622,234 |
| Agribusiness | - | - | - | - |
| Education | 372,055 | 425,895 | 493,597 | 712,832 |
| Food and dietary services | 874,752 | 1,164,598 | 1,408,081 | 1,428,798 |
| Laundry | 57,504 | 115,936 | 136,630 | 183,440 |
| Medical and clinical services | 2,373,115 | 2,342,367 | 3,788,654 | 3,307,891 |
| Physical plant | 2,236,251 | 1,917,423 | 4,332,877 | 2,085,641 |
| Power plant | 40,831 | - | 175,288 | 554,278 |
| Recreation | - | 46,623 | - | 39,033 |
| Rehabilitation and treatment services | 711,344 | 839,509 | 643,349 | 441,369 |
| Security | 13,653,097 | 13,679,912 | 13,478,198 | 13,839,525 |
| Wastewater treatment | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenses | <u>\$ 22,011,271</u> | <u>\$ 21,814,120</u> | <u>\$ 26,437,329</u> | <u>\$ 24,215,039</u> |
| Average annual expenses per inmate | <u>\$ 29,585</u> | <u>\$ 19,118</u> | <u>\$ 22,160</u> | <u>\$ 18,888</u> |
| Average daily expenses per inmate | <u>\$ 81.05</u> | <u>\$ 52.38</u> | <u>\$ 60.71</u> | <u>\$ 51.75</u> |

| | Keen Mountain Correctional Center | Nottoway Correctional Center | Augusta Correctional Center | Brunswick Correctional Center |
|---------------------------------------|--|---|--|--|
| | <u>Security Level 4</u> | <u>Security Level 4</u> | <u>Security Level 3</u> | <u>Security Level 3</u> |
| Average daily population: | 898 | 1,199 | 1,119 | 746 |
| Average employment level: | 280 | 419 | 409 | 381 |
| Expenses: | | | | |
| Administration | \$ 1,557,518 | \$ 1,427,188 | \$ 1,443,959 | \$ 1,345,028 |
| Agribusiness | - | 285,079 | 291,928 | 283,192 |
| Education | 539,506 | 682,025 | 552,370 | 776,586 |
| Food and dietary services | 1,043,711 | 1,143,761 | 1,251,617 | 977,989 |
| Laundry | 127,114 | 181,728 | 60,201 | 33,694 |
| Medical and clinical services | 1,408,238 | 2,511,319 | 3,061,369 | 2,671,150 |
| Physical plant | 1,574,430 | 1,932,296 | 2,201,123 | 1,606,719 |
| Power plant | 522,141 | 300,094 | 414,990 | 388,940 |
| Recreation | 40,052 | 53,737 | 48,154 | 16,605 |
| Rehabilitation and treatment services | 536,714 | 725,834 | 787,621 | 810,132 |
| Security | 9,350,839 | 14,994,567 | 14,514,943 | 11,740,768 |
| Wastewater treatment | <u>-</u> | <u>251,922</u> | <u>-</u> | <u>-</u> |
| Total expenses | <u>\$ 16,700,264</u> | <u>\$ 24,489,550</u> | <u>\$ 24,628,274</u> | <u>\$ 20,650,803</u> |
| Average annual expenses per inmate | <u>\$ 18,597</u> | <u>\$ 20,425</u> | <u>\$ 22,009</u> | <u>\$ 27,682</u> |
| Average daily expenses per inmate | <u>\$ 50.95</u> | <u>\$ 55.96</u> | <u>\$ 60.30</u> | <u>\$ 75.84</u> |

| | Buckingham Correctional Center | Fluvanna Correctional Center | Greensville Correctional Center | Mecklenburg Correctional Center |
|---------------------------------------|---|---|--|--|
| | <u>Security Level 3</u> | <u>Security Level 3</u> | <u>Security Level 3</u> | <u>Security Level 3</u> |
| Average daily population: | 985 | 1,161 | 3,034 | 728 |
| Average employment level: | 343 | 353 | 827 | 314 |
| Expenses: | | | | |
| Administration | \$ 1,309,699 | \$ 1,676,016 | \$ 3,462,968 | \$ 1,340,190 |
| Agribusiness | 150,181 | - | 663,126 | - |
| Education | 536,902 | 1,134,763 | 1,746,410 | 223,679 |
| Food and dietary services | 1,056,595 | 1,024,321 | 3,592,831 | 862,950 |
| Laundry | 21,074 | 166,954 | 742,691 | 61,927 |
| Medical and clinical services | 2,268,135 | 8,384,919 | 12,814,978 | 1,703,710 |
| Physical plant | 1,410,237 | 1,886,605 | 4,836,291 | 1,848,716 |
| Power plant | 346,551 | - | 807,722 | 569,968 |
| Recreation | 47,271 | - | 130,289 | 52,064 |
| Rehabilitation and treatment services | 713,452 | 1,053,535 | 1,738,752 | 561,647 |
| Security | 12,332,403 | 13,084,701 | 29,651,757 | 10,505,875 |
| Wastewater treatment | <u>245,741</u> | <u>413,956</u> | <u>-</u> | <u>-</u> |
| Total expenses | <u>\$ 20,438,241</u> | <u>\$ 28,825,770</u> | <u>\$ 60,187,816</u> | <u>\$ 17,730,726</u> |
| Average annual expenses per inmate | <u>\$ 20,749</u> | <u>\$ 24,828</u> | <u>\$ 19,838</u> | <u>\$ 24,355</u> |
| Average daily expenses per inmate | <u>\$ 56.85</u> | <u>\$ 68.02</u> | <u>\$ 54.35</u> | <u>\$ 66.73</u> |

| | Powhatan Correctional Center | Southampton Correctional Center | Bland Correctional Center | Coffeewood Correctional Center |
|---------------------------------------|---|--|--|---|
| | <u>Security Level 3</u> | <u>Security Level 3</u> | <u>Security Level 2</u> | <u>Security Level 2</u> |
| Average daily population: | 858 | 650 | 638 | 1,195 |
| Average employment level: | 333 | 247 | 287 | 252 |
| Expenses: | | | | |
| Administration | \$ 2,078,860 | \$ 1,417,565 | \$ 1,277,458 | \$ 1,667,309 |
| Agribusiness | - | 1,464,960 | 1,085,329 | 184,784 |
| Education | 692,534 | 973,332 | 606,098 | 753,502 |
| Food and dietary services | 1,081,929 | 856,358 | 790,191 | 1,240,250 |
| Laundry | 30,845 | 14,007 | 84,985 | 111,117 |
| Medical and clinical services | 6,006,658 | 1,466,315 | 1,591,529 | 3,901,303 |
| Physical plant | 2,471,249 | 1,723,501 | 1,195,842 | 1,534,664 |
| Power plant | 693,392 | 754,492 | 381,489 | - |
| Recreation | 39,409 | 51,820 | 48,176 | 38,967 |
| Rehabilitation and treatment services | 676,119 | 410,106 | 593,115 | 795,361 |
| Security | 12,157,254 | 7,310,414 | 9,299,740 | 8,785,450 |
| Wastewater treatment | <u>-</u> | <u>316,381</u> | <u>337,695</u> | <u>340,665</u> |
| Total expenses | <u>\$ 25,928,248</u> | <u>\$ 16,759,251</u> | <u>\$ 17,291,647</u> | <u>\$ 19,353,373</u> |
| Average annual expenses per inmate | <u>\$ 30,219</u> | <u>\$ 25,783</u> | <u>\$ 27,103</u> | <u>\$ 16,195</u> |
| Average daily expenses per inmate | <u>\$ 82.79</u> | <u>\$ 70.64</u> | <u>\$ 74.25</u> | <u>\$ 44.37</u> |

| | Deep Meadow Correctional Center | Deerfield Correctional Center | Dillwyn Correctional Center | Haynesville Correctional Center |
|---------------------------------------|--|--|--|--|
| | <u>Security Level 2</u> | <u>Security Level 2</u> | <u>Security Level 2</u> | <u>Security Level 2</u> |
| Average daily population: | 974 | 469 | 1,089 | 1,114 |
| Average employment level: | 317 | 183 | 262 | 312 |
| Expenses: | | | | |
| Administration | \$ 1,213,051 | \$ 1,122,862 | \$ 1,261,797 | \$ 1,390,555 |
| Agribusiness | - | 41,270 | - | - |
| Education | 465,807 | 472,761 | 519,768 | 574,025 |
| Food and dietary services | 938,079 | 674,461 | 1,005,391 | 1,271,233 |
| Laundry | 77,277 | 42,011 | 68,233 | 56,730 |
| Medical and clinical services | 2,735,474 | 3,108,453 | 3,270,219 | 2,345,106 |
| Physical plant | 1,440,226 | 871,757 | 1,296,715 | 1,509,842 |
| Power plant | - | - | - | - |
| Recreation | 49,422 | 103,948 | 39,512 | 39,465 |
| Rehabilitation and treatment services | 320,352 | 334,990 | 680,733 | 720,148 |
| Security | 11,390,067 | 5,838,518 | 9,059,791 | 9,176,687 |
| Wastewater treatment | <u>-</u> | <u>-</u> | <u>-</u> | <u>269,423</u> |
| Total expenses | <u>\$ 18,629,755</u> | <u>\$ 12,611,032</u> | <u>\$ 17,202,161</u> | <u>\$ 17,353,214</u> |
| Average annual expenses per inmate | <u>\$ 19,127</u> | <u>\$ 26,889</u> | <u>\$ 15,796</u> | <u>\$ 15,577</u> |
| Average daily expenses per inmate | <u>\$ 52.40</u> | <u>\$ 73.67</u> | <u>\$ 43.28</u> | <u>\$ 42.68</u> |

| | Indian Creek Correctional Center | James River Correctional Center | Lunenburg Correctional Center | St. Brides Correctional Center |
|---------------------------------------|---|--|--|---|
| | <u>Security Level 2</u> | <u>Security Level 2</u> | <u>Security Level 2</u> | <u>Security Level 2</u> |
| Average daily population: | 955 | 463 | 1,188 | 561 |
| Average employment level: | 267 | 260 | 271 | 178 |
| Expenses: | | | | |
| Administration | \$ 1,340,101 | \$ 1,281,465 | \$ 1,319,956 | \$ 1,279,768 |
| Agribusiness | - | 1,895,213 | - | - |
| Education | 649,731 | 498,973 | 743,613 | 1,268,070 |
| Food and dietary services | 978,500 | 671,653 | 1,279,769 | 647,967 |
| Laundry | 118,025 | 46,334 | 95,152 | 39,788 |
| Medical and clinical services | 2,364,147 | 938,698 | 3,553,901 | 781,257 |
| Physical plant | 1,237,706 | 978,635 | 2,350,199 | 828,240 |
| Power plant | - | 426,038 | - | 319,078 |
| Recreation | 101,442 | 49,778 | 53,826 | 33,487 |
| Rehabilitation and treatment services | 1,659,776 | 242,903 | 752,727 | 578,866 |
| Security | 8,735,458 | 5,165,615 | 9,030,892 | 5,926,990 |
| Wastewater treatment | <u>-</u> | <u>726,691</u> | <u>-</u> | <u>319,634</u> |
| Total expenses | <u>\$ 17,184,887</u> | <u>\$ 12,921,996</u> | <u>\$ 19,180,034</u> | <u>\$ 12,023,146</u> |
| Average annual expenses per inmate | <u>\$ 17,995</u> | <u>\$ 27,909</u> | <u>\$ 16,145</u> | <u>\$ 21,432</u> |
| Average daily expenses per inmate | <u>\$ 49.30</u> | <u>\$ 76.46</u> | <u>\$ 44.23</u> | <u>\$ 58.72</u> |

| | Virginia Correctional Center for Women <u>Security Level 2</u> | Marion Correctional Center <u>Security Level 2</u> | All Major Correctional Centers |
|---------------------------------------|---|---|---|
| Average daily population: | 497 | 219 | 25,100 |
| Average employment level: | 193 | 224 | 8,435 |
| Expenses: | | | |
| Administration | \$ 1,607,305 | \$ 845,528 | \$ 39,243,218 |
| Agribusiness | - | 44,469 | 6,389,531 |
| Education | 829,215 | 233,833 | 17,477,884 |
| Food and dietary services | 666,273 | 328,818 | 28,260,875 |
| Laundry | 38,357 | 40,956 | 2,752,710 |
| Medical and clinical services | 2,434,957 | 2,633,115 | 83,766,977 |
| Physical plant | 1,004,494 | 619,098 | 46,930,775 |
| Power plant | 539,623 | - | 7,234,917 |
| Recreation | 50,988 | 166,333 | 1,340,403 |
| Rehabilitation and treatment services | 662,816 | 1,001,965 | 18,993,234 |
| Security | 5,808,820 | 6,964,515 | 285,476,795 |
| Wastewater treatment | <u>-</u> | <u>-</u> | <u>3,222,107</u> |
| Total expenses | <u>\$ 13,642,849</u> | <u>\$ 12,878,629</u> | <u>\$ 541,089,426</u> |
| Average annual expenses per inmate | <u>\$ 27,450</u> | <u>\$ 58,807</u> | <u>\$ 21,557</u> |
| Average daily expenses per inmate | <u>\$ 75.21</u> | <u>\$ 161.11</u> | <u>\$ 59.06</u> |

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Strengthen Payroll Processing Procedures

Corrections needs to address several internal control weaknesses in their payroll processing procedures. Our review of the payroll process found a lack of documented policies and procedures; a lack of effective pre-certification procedures; and facilities and field units not submitting payroll changes timely.

Corrections employs over 11,000 individuals with annual payroll expenses over \$500 million. Corrections has a central office, as well as three regional offices, 27 major correctional centers, four work centers, two reception and diagnostic centers, one treatment center and 13 field units. Most of the employees work in various corrections centers across the state.

Corrections' payroll function is primarily administered through a central payroll unit in the Department's Central Office. Facilities and field units send their payroll changes into the central payroll unit, where the unit enters the changes into Corrections payroll system, CIPPS. The central payroll unit has 17 employees, most of whom are payroll technicians responsible for entering payroll changes into CIPPS each pay period. Our review of Corrections' payroll processing identified the following internal control weaknesses.

Lack of Documented Policies and Procedures

Corrections has no documented policies and procedures over payroll processing, either for the central payroll unit or for facilities and field units. Some facilities have developed their own procedures that address post-certification procedures they perform; however, no one has reviewed or approved these procedures. As a result, there is no consistency among procedures performed by facilities, nor is there coordination with procedures performed by the central payroll unit.

Lack of Effective Pre-Certification Reviews

The Commonwealth Accounting Policies and Procedures (CAPP) manual stresses the importance of the pre-certification review, a process to review and determine if payroll changes are appropriate. The only pre-certification procedure performed is when the payroll technicians review the payroll changes before they enter the change into the payroll system. This review consists of the same person entering the information, and therefore does not provide either a separation of duties or a supervisory review of the transaction. In addition, the payroll technicians do not document their review, thus there is no evidence to support the review.

Facilities and Field Units Not Submitting Payroll Changes Timely

The central payroll unit has a schedule each pay period setting deadlines for when they should receive payroll information from facilities and field units. The central payroll unit often receives late information from the facilities and field units, which creates a very heavy workload for the central payroll unit at the end of a pay period. This workload situation could compromise the integrity of the information and the ability to perform reviews.

We recommend Corrections take the following specific actions to address these internal control weaknesses:

- Corrections should develop policies and procedures over payroll processing. Payroll is a significant expense of the Department, and documented policies and procedures would strengthen their internal controls. The Commonwealth Accounting Policies and Procedure (CAPP) manual highlights key controls in payroll processing, but recommends agencies develop their own policies and procedures tailored to their organization. In addition, formal policies and procedures would be a training tool for new employees in the payroll unit. There is a high level of employee turnover in this unit, and written policies and procedures would help new employees to understand the procedures.
- Corrections should improve their pre-certification procedures. Ideally, someone should review payroll changes before entering into CIPPS and this individual should be someone other than the individual entering the data. Additionally, Corrections should require the individual document this review. The CAPP manual does allow agencies to use statistically valid random sampling techniques for pre-certification reviews. Corrections should consider this type of a procedure given the number of employees and volume of changes they are processing each payroll period.

Additionally, there are two other issues that Corrections' management and the central payroll unit should consider when evaluating the effectiveness of payroll operations. First, Corrections' payroll unit needs to continue to explore opportunities to use technology to enhance their operations. It is our understanding that the payroll unit is evaluating how they could use downloaded payroll data to improve the process. We encourage them to continue to look into this as it is likely the use of better technology and downloaded information could provide opportunities to more efficiently perform some functions. Second, Corrections management should examine the staffing level of the central payroll unit to ensure it is adequate to meet their responsibilities.

Develop Financial Plan for Commissary Funds

Corrections does not prepare a budget, nor do they have a system-wide financial plan for management of commissary operations. Corrections has approximately 40 commissaries in various facilities that sell goods and toiletry items to inmates. Over time, the Commissary operations have accumulated a fund balance of approximately \$5 million, most of which is cash and investments held at the various institutions. Because Corrections does not have a financial plan for these funds, facilities did not consistently manage and invest these funds during the year. Although the cash balance available for investment averaged \$3 million during the year, the funds earned only \$33,000 in interest.

During 2003, Corrections contracted with a private company to run the commissary operations in most facilities; six facilities elected to continue to operate their own commissaries. Under the private contract, the company would run all commissary operations, and pay Corrections a 6.5 percent commission on sales. The Code of Virginia requires Corrections to use all commissary profits for the benefit of the inmates at the discretion of the Director.

We recommend that Corrections develop a budget and financial plan for commissary operations. This plan should include estimated income and expenses for the year, as well as a balance Corrections wants to maintain in the fund for cash flow purposes. The financial plan should also include cash management policies

so facilities will consistently manage and invest any excess funds and optimize investment earnings. As part of this review, Corrections management should determine whether these funds are available for inmate activities or programs impacted by state budget reductions.

Follow Established Inventory Procedures

As reported previously, Corrections staff did not follow established procedures when performing their materials and supplies inventory and commissary inventory. At year end, this inventory had a value of over \$10 million. We observed year-end inventories at four facilities and found the following issues.

- Two of the four facilities had not developed institutional procedures specific to their operations for inventory procedures to help eliminate confusion before, during, and after the inventory count.
- One facility's inventory personnel had access to the perpetual inventory records during the count, and one department used those records to verify the count while counting.
- Two institutions had obsolete inventory, purchased over five years earlier and no records to support the valuation.
- Two of four institutions did not properly value inventory by using incorrect prices.

Corrections risks misstating inventory when staff do not properly follow inventory policies and procedures. Corrections should ensure that employees understand and follow the policies and procedures for materials and supplies inventory and commissary inventory.

Ensure Proper Recording and Tracking of Leases

As reported previously, Corrections needs to improve internal controls to ensure that staff properly record and track leases in accordance with Commonwealth Accounting Policies and Procedures. We found five out of ten lease payments not properly coded in the Commonwealth Accounting and Reporting System. Also, we found two out of ten leases not recorded on the Lease Accounting System (LAS). Corrections should ensure that institution staff have adequate training and properly follow Corrections' procedures for leases and related payments.

February 24, 2005

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

The Honorable Lacey E. Putney
Vice 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, 2004. 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 Objective, Scope and Methodology

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

Revenue
Expenditures
Contract Management

Inmate Trust Funds
Commissary Funds
Inventory

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

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

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

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and Corrections' "Annual Management Information Summaries Report."

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

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations."

Corrections has not taken adequate corrective action with respect to the previously reported finding entitled "Follow Established Inventory Procedures" and "Ensure Proper Recording and Tracking of Leases." These findings are included in the section entitled "Internal Control and Compliance Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report with the exception of the aforementioned finding.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 11, 2005.

AUDITOR OF PUBLIC ACCOUNTS

LCR:aom
aom:49



COMMONWEALTH of VIRGINIA

Department of Corrections

Gene Johnson
DIRECTOR

P.O. BOX 2696
RICHMOND, VIRGINIA 2326
(804) 674-3000

April 20, 2005

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, 2004

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, 2004. 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 report.

Sincerely,

A handwritten signature in cursive script, reading "N. H. Scott".

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 2004
INTERNAL CONTROL AND COMPLIANCE FINDINGS,
RECOMMENDATIONS AND DOC RESPONSES**

APA FINDING #1 – STRENGTHEN PAYROLL PROCESSING PROCEDURES

Corrections needs to address several internal control weaknesses in their payroll processing procedures. Our review of the payroll process found a lack of documented policies and procedures, a lack of effective pre-certification procedures, and facilities and field units not submitting payroll changes timely.

We recommend Corrections take the following specific actions to address these internal control weaknesses:

- A) Corrections should develop policies and procedures over payroll processing.
- B) Corrections should improve their pre-certification procedures.
- C) Corrections payroll unit needs to continue to explore opportunities to use technology to enhance their operations.
- D) Corrections management should examine the staffing level of the central payroll unit to ensure it is adequate to meet their responsibilities.

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

ACTION PLAN:

- A) Payroll policies and procedures will be developed and implemented.
- B) The Payroll Unit will strengthen its controls over the pre-certification process.
- C) Management will continue to work closely with agency IT professionals to identify areas within the Payroll Unit where automation may be appropriate.
- D) Management will evaluate the adequacy of Payroll Unit staffing in conjunction with the completion of items A, B, and C above.

RESPONSIBLE POSITION:

- A) Payroll Manager
- B) Payroll Manager
- C) Payroll Manager and DOC/IT unit
- D) Controller, Payroll Manager, and Employee Relations.

DUE DATE:

- A) 3rd Quarter, FY '06
- B) 1st Quarter, FY '06
- C) Ongoing
- D) 1st Quarter, FY '06

APA FINDING #2 – DEVELOP FINANCIAL PLAN FOR COMMISSARY FUNDS

Corrections does not prepare a budget, nor do they have a system-wide financial plan for management of commissary operations.

We recommend that Corrections develop a budget and financial plan for commissary operations. This plan should include estimated income and expenses for the year, as well as a balance Corrections wants to maintain in the fund for cash flow purposes. The financial plan should also include cash management policies so facilities will consistently manage and invest any excess funds and optimize investment earnings.

DOC RESPONSE: Management concurs with the auditor's recommendation that the DOC develop a financial plan for Commissary operations. Commencing in fiscal year 2006, Management will develop a cost beneficial financial plan for Commissaries department-wide that includes planned revenues and expenditures and a projected fund balance. Existing cash management policies will be revised to specifically address the investment of excess funds.

ACTION PLAN:

- A) Create guidelines for developing a Commissary Financial Plan.
- B) Develop financial plans for each DOC Commissary.
- C) Revise existing cash management policies.

RESPONSIBLE POSITION:

- A) DOC Controller
- B) Agency Business Managers
- C) Fiscal Advisory Team

DUE DATE:

- A) June 1, 2005
- B) July 1, 2005
- C) July 1, 2005

APA FINDING #3 – FOLLOW ESTABLISHED INVENTORY PROCEDURES

As reported previously, Corrections staff did not follow established procedures when performing their materials and supplies inventory and commissary inventory. At year-end, this inventory had a value of over \$10 million.

Corrections risks misstating inventory when staff do not properly follow inventory policies and procedures. Corrections should ensure that employees understand and follow the policies and procedures for materials and supplies inventory and commissary inventory.

DOC RESPONSE: During fiscal year 2003, the DOC absorbed significant losses of fiscal and clerical positions due to mandated budget cuts. These positions supported and/or performed fiscal-related tasks at DOC facilities, many of which were already understaffed. The procedures governing the performance of the annual materials and supply physical inventory were implemented several years ago when staffing was at a level that was adequate to support the performance of each and every step of the procedure. As a result of the loss of positions, Management has initiated a rewrite of these procedures. An Inventory Management and Control Committee consisting of select Business Managers, IT personnel, Warehouse personnel, and the DOC Controller/staff has been assembled for this purpose as well as to recommend a web-enabled, high tech inventory system that will allow centralized control of agency inventories.

ACTION PLAN:

- A) Develop uniform, agency-wide inventory policies and procedures.
- B) Recommend and obtain approval for the purchase of a web-based, high tech inventory management and control system that will provide centralized control of agency-wide inventories.
- C) Implement automated system, convert data, and train personnel.

RESPONSIBLE POSITION:

- A) DOC Controller
- B) DOC Inventory Management and Control Committee
- C) DOC Deputy Director of Administration, DOC Controller, DOC Chief Technology Officer

DUE DATE:

- A) June 30, 2005
- B) December 31, 2005
- C) June 30, 2006

APA FINDING #4 – ENSURE PROPER RECORDING AND TRACKING OF LEASES

As reported previously, Corrections needs to improve internal controls to ensure that staff properly record and track leases in accordance with Commonwealth Accounting Policies and Procedures. Corrections should ensure that institution staff have adequate training and properly follow Corrections' procedures for leases and related payments.

DOC RESPONSE: The DOC absorbed significant losses of fiscal and clerical positions during fiscal year 2003 due to mandated budget cuts. These positions supported and/or performed fiscal-related tasks at DOC facilities, many of which were already understaffed. This loss of fiscal and clerical support coupled with a lack of procedures/training resulted in non-compliance. During fiscal year 2004, Management has redefined LAS responsibilities and released a comprehensive training package which details the many requirements involved in processing a lease. Management feels that the collective impact of these actions will result in a higher level of compliance in fiscal year 2005.

ACTION PLAN: Evaluate the need for further LAS training.

RESPONSIBLE POSITION: Manager of Financial Services

DUE DATE: December 31, 2005

DEPARTMENT OF CORRECTIONS
Richmond, Virginia

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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