DEPARTMENT OF CORRECTIONS
VIRGINIA PAROLE BOARD
VIRGINIA CORRECTIONAL ENTERPRISES

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009

APA
Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Corrections, the Virginia Parole Board, and the Virginia Correctional Enterprises for the year ended June 30, 2009, 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;

- instances of noncompliance with applicable laws and regulations required to be reported; and

- inadequate implementation of corrective action with respect to the following prior audit findings:

  - Improve Controls and Processes Surrounding Construction in Progress; and

  - Develop Internal Controls for Leave Liability and Time Tracking System.

The report includes a section for the Department of Corrections, which includes the Virginia Parole Board, and a section for Virginia Correctional Enterprises.

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DEPARTMENT OF CORRECTIONS

AUDIT FINDINGS AND RECOMMENDATIONS

Continue to Improve Controls and Processes Surrounding Construction in Progress

The Department of Corrections (Corrections) has made significant improvement in its ability to properly record capital assets and capital outlay. Corrections transferred the responsibility for recording Construction in Progress and related capital assets in the fixed asset system to the Budget Office, along with coordination from the Architectural and Engineering Services division. This was the first fiscal year in which these changes took effect, and it greatly streamlined the process and reduced errors.

However, when communicating Construction in Progress (CIP) amounts to the Department of Accounts at fiscal year-end on Attachment 14, Corrections did not include $11.6 million in expenditures related to energy performance contracts as CIP increases. Additionally, Corrections understated CIP decreases by $2.3 million by not reporting decreases in energy performance contracts. Additionally, Corrections did not decrease CIP for amounts expensed and not capitalized in other asset categories (land, building, infrastructure, or equipment). This understated the CIP decreases by an additional $5.9 million. The result to the Commonwealth's financial statements would have been a $3.4 million understatement of non-depreciable capital assets.

Corrections should develop and implement processes to ensure energy performance contracts are included in CIP on Attachment 14, and to ensure CIP reasonably reflects the activity that is actually occurring for capitalized and expensed items. Corrections should also continue to seek advice from the Department of Accounts on any related areas about which they are uncertain. Such processes will save Corrections time in communicating the information at year-end and prevent misstatement of CIP amounts in the Commonwealth's financial statements.

Develop Internal Controls for Leave Liability and Time Tracking System

As indicated in the prior year audit report, Corrections' time and leave system (DOCXL) used at their facilities continues to have inadequate internal controls, resulting in unreliable data. Best practices such as audit trails, controls to prevent changes to formulas and computations, and the capture of all transactional activity, do not exist in DOCXL.

DOCXL is an Excel spreadsheet application that uses a spreadsheet template for each employee. Individual employees' DOCXL files are located on a network drive. The files are password protected and only certain individuals, most of them Human Resource employees, have passwords to the files.

We noted the following issues.

1. Employees had write access who do not need it to perform job responsibilities.

2. Once a person has write access to the files with the employee spreadsheets, users can enter, change, and delete data and formulas in any or all of the spreadsheets with no trail to indicate what they did.

3. Human Resource enters hours worked and leave information each pay cycle and Corrections relies on supervisor and employee reviews and sign-offs to verify the accuracy of that cycle's information. However, the system does not prevent changes to a previous activity after the sign-off occurs and, as stated earlier, there is no audit trail. As a result, someone could change information previously approved as correct by the supervisor without the supervisor detecting the alteration.

4. DOCXL system does not protect computational formulas, which could result in intentional or unintentional formula changes that result in errors in the amount of leave and/or time reported.

5. When converting leave balances from DOCXL to the leave liability spreadsheets, numerous errors resulted from manual and/or programmatic input codes.

Corrections would be an ideal candidate to implement the Commonwealth's enterprise time and effort system under consideration by the Virginia Enterprise Applications Project Office. However, the timeframe for implementing this enterprise solution is uncertain at this time. As an interim solution we recommend that Corrections consider purchasing or developing a more robust time and effort system that provides adequate internal controls. Using Excel to manage the time and effort for an organization with more than 11,500 employees and numerous facilities is not adequate. Excel does not provide adequate security, an audit trail of transactions, or control changes to ensure the accuracy of how the system performs the calculations. Until DOCXL is replaced, the accuracy of time and leave data at Corrections is questionable, and identifying that someone inaccurately reported or modified recorded time or leave is also questionable.

<u>Enforce Policies and Procedures Governing Un-Allowed Charge Card Purchases</u>

Our fiscal year 2009 audit included a review of 15 transactions charged to a restricted Merchant Category Code (MCC), as specified in the Commonwealth of Virginia Purchasing Card Restriction Table. Charge Card Program Administrators could not provide documentation supporting the request to remove these MCCs for six of the transactions reviewed.

For these transactions, we could not determine whether personnel made the appropriate request to remove the Industry Restriction. As stated in the CAPP Manual Topic 20355, Program Administrators can remove restrictions for valid reasons, but the cardholder's supervisor should put in writing the reason for removing the restriction and maintain a copy of the approval for audit. Additionally, Program Administrators are responsible for ensuring all cards have appropriate restrictions by auditing the Industry Restrictions placed on all cards at least monthly. Not properly documenting or monitoring lifted restrictions increases the risk of employees making improper purchases.

We recommend that Corrections' Small Purchase Charge Card Program Administrators review charge cards to determine which cards have restrictions lifted, ensure that the removed restrictions are still reasonable, and document for future audits. Additionally, for Industry Restrictions removed in the future, Corrections should appropriately maintain all documentation of requests for removal.

Improve Procedures for Monitoring Vehicle and Fuel Card Use

Corrections does not consistently maintain supporting documentation of agency vehicle and fuel card usage, which prevents the agency from ensuring that employees appropriately use agency vehicles and fuel cards for State business. Furthermore, Corrections does not properly reconcile supporting documentation for fuel purchases to monthly fuel card statements, which resulted in multiple overpayments to Mansfield Oil, the Voyager fuel card vendor, in fiscal year 2009. Corrections' fiscal year 2009 payments to Mansfield Oil were approximately $1.4 million.

We reviewed 45 Voyager fuel card transactions. Of the 45 transactions reviewed, Corrections either inaccurately processed or could not support 11 transactions. For two of these transactions, the vendor charged an amount greater than the actual transaction price, which resulted in Corrections overpaying Mansfield Oil. We found that neither the individual units nor the General Services Unit reviews the monthly statement of charges for appropriateness of card use to include a reconciliation of all charges before processing payment to the card vendor.

Because Corrections does not properly reconcile all charges, they did not identify these inaccurate charges and could not recover the funds. Agency employees could not sufficiently substantiate the remaining nine transactions due to lack of documentation. The units with vehicle assignments do not consistently maintain records of all vehicle and card usage, including transaction receipts and sign out sheets; therefore, employees were not always able to explain questionable transactions.

Agencies are responsible for managing the Voyager card program in a manner consistent with all applicable State accounting policies and procedures related to the use of charge card programs. Agencies assume ultimate responsibility for employees' use of fuel cards as well as accountability for the physical security of the fuel cards.

To ensure adequate internal controls, Corrections should develop, document, and implement agency-specific policies and procedures governing the assignment and use of agency-owned vehicles, Department of General Services Office of Fleet Management Services leased fleet vehicles, and all Voyager fuel cards. Corrections should communicate these policies and procedures to employees and enforce compliance. The risk of fraud and the potential for errors and improper payments increases without documented procedures that all agency employees follow.

Improve Procedures for Tracking Vehicle Inventory

Corrections does not track its vehicles regularly to account for all agency-owned and leased vehicles. As a result, the agency's vehicle listings are inaccurate and incomplete. Our fiscal year 2009 audit included a review of Corrections' 2,500 agency-owned vehicles and 600 vehicles leased from the Department of General Services' Office of Fleet Management Services (OFMS). Corrections' General Services Unit maintains lists of these vehicles.

General Services Unit's list of agency-owned vehicles did not agree fully to a list of Corrections' vehicles from the Commonwealth's Fixed Asset Accounting and Control System (FAACS). Corrections should regularly reconcile its inventory of agency vehicles with the assets recorded in FAACS to ensure proper accounting for all agency-owned vehicles and that FAACS records are accurate. It is vital that the vehicle management and accounting functions interact and ensure that the vehicles that employees use in the course of business are the same vehicles recorded for financial reporting purposes. An inaccurate inventory of agency-owned vehicles reduces the ability to track vehicles used by agency employees, increases the potential for misuse of vehicles, and increases the potential for inaccurate financial reporting.

Additionally, Corrections' list of vehicles leased from the OFMS did not agree fully to an OFMS list of vehicles leased to Corrections. We found discrepancies in both Corrections' listing as well as the OFMS listing. Corrections should regularly reconcile its inventory of leased vehicles with the OFMS' records to ensure that they properly account for leased vehicles. An inaccurate inventory of leased vehicles reduces the ability to track vehicles used by agency employees, increases the potential for misuse of vehicles, and increases the potential for improper lease payments to the OFMS.

We recommend that Corrections develop and implement controls to ensure that the vehicle management function and the accounting function interact to ensure that the vehicles the agency owns and uses are the same as the vehicles included in FAACS for financial reporting purposes. Additionally, Corrections should develop and implement controls to ensure that they accurately account for vehicles leased from the OFMS and that Corrections' inventory of leased vehicles reconciles with the OFMS' records of vehicles leased to Corrections.

Update IT Risk Management Plans

Corrections has not updated its Information Technology (IT) risk management and contingency plans to reflect changes in its IT environment since November 2007. The Commonwealth's Information Security Standard requires that Corrections update and test its IT risk management and contingency plan documents after a major change in its IT environment.

Corrections' IT environment has gone through significant changes, including the elimination of legacy systems and the transfer of ownership of technology infrastructure to the Virginia Information Technologies Agency's IT Infrastructure Partnership with Northrop Grumman (Partnership). As a result, Corrections does not have effective and reliable plans to guide the restoration and recovery of information systems that support essential business functions.

We recommend that Corrections implement a process to periodically review, update, and test the adequacy and accuracy of critical Information Security Program components, including the Risk Assessment, Business Impact Analysis, Continuity of Operations Plan, and Disaster Recovery Plan. Regular testing and updating of these documents helps Corrections determine if they have the necessary resources available to restore systems in the event of an outage or disaster. Corrections should use the updated risk management and contingency plans to determine which backup and data restoration services it needs from the Partnership.

AGENCY HIGHLIGHTS

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 also coordinates parole activities with the Parole Board. Corrections provides the Parole Board with services that include processing financial transactions and preparing financial reports. This report describes later, in more detail, the operations of each of Corrections' programs and the Parole Board.

Corrections Funding

Corrections' primary source of funding is General Fund appropriations, which pay 98 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.

	2004	2005	2006	2007	2008	2009
Average annual cost per inmate	$20,401	$21,248	$23,123	$22,830	$24,332	$24,665
Total operating budget (in millions)	$ 774	$ 814	$ 874	$ 895	$ 1,001	$ 1,012

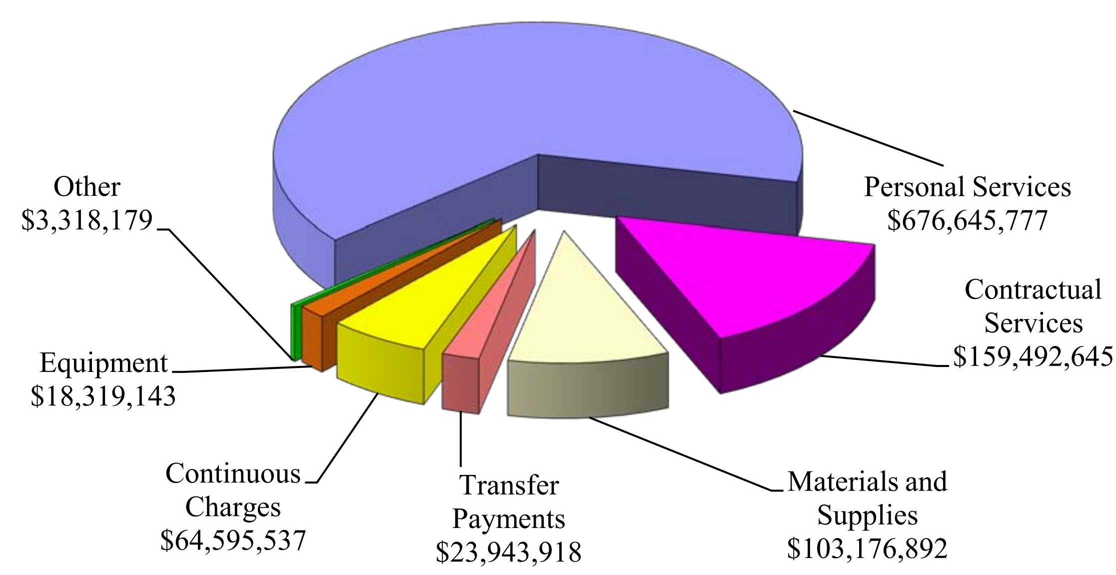
Sources: Corrections' Management Information Summary Report and Chapter 879 Appropriation Act with appropriation adjustments processed during the year by the Department of Planning and Budget. Table excludes Virginia Correctional Enterprises and Virginia Parole Board.

Even though Corrections' appropriation for fiscal year 2009 decreased from the Governor's original budget proposal as a result of the State's budget reduction, Corrections' final budget increased approximately $11 million over its fiscal year 2008 final budget. This increase is primarily to cover increased inmate medical costs.

Corrections' largest expense item is personal services, which includes payroll and fringe benefit costs for the agency's employees. In fiscal year 2009, personal service expenses comprised 66 percent of total agency expenditures. Corrections' authorized employment level for fiscal year 2009 was 12,934, which was a six percent decrease from the agency's fiscal year 2008 level. This reduction in the authorized employment level is attributable to the loss of positions resulting from budget reductions and the elimination of some unfunded authorized positions. Corrections' average employment level during fiscal year 2009 was 12,194.

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 2009.

Operating Expense by Type



Source: The Commonwealth's Accouting and Reporting System (CARS)

In addition to the expenses previously discussed above, Corrections' contractual services expenses also include capital outlay and maintenance reserve expenses. In fiscal year 2009, Corrections spent $70 million for capital outlay. The following lists some of the largest projects.

- $49.4 million for construction of the Mount Rogers medium security correctional facility,
- $7.0 million to construct a new milk processing plant at Powhatan Correctional Center,
- $2.6 million for the Deerfield Correctional Center expansion,
- $2.3 million to upgrade the Wastewater Treatment Plant at Nottoway Correctional Center,
- $2.2 million for roof replacements at multiple institutions,
- $1.2 million for Phase II of the St. Brides Correctional Center, and
- $3.5 million for maintenance reserve expenses.

During the budget development process, Corrections requests full funding for its authorized employment level, although the authorized level is usually greater than the agency's actual employment level each fiscal year. This practice results in annual savings to the agency when positions are unfilled. Corrections uses these savings for other operating expenses when they do not have full funding. Although Corrections' authorized position level has decreased significantly as a result of recent budget reductions, the agency continues to have a vacancy rate that produces sufficient funds to pay for these unfunded items.

In fiscal year 2009, the Department of Planning and Budget adjusted Corrections' appropriation so that approximately $11 million historically budgeted for employee-related expenses was budgeted instead for information technology costs. This adjustment did not increase Corrections' fiscal year 2009 appropriation, but it realigned funds to more accurately reflect the agency's operating expenses. Additionally, during fiscal year 2009, Corrections funded utility rate increases, gasoline rate increases, and leases with funds initially budgeted for employee-related expenses. Corrections funds these expenses annually with vacancy savings. Corrections also had one-time vacancy savings during fiscal year 2009 that allowed the agency to purchase additional equipment. These one-time savings occurred because the agency held open vacant positions they would have normally filled in anticipation of correctional facility closings.

The following table summarizes Corrections' budget and actual operating activity by program for fiscal year 2009:

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Operation of secure correctional facilities	$ 911,798,926	$ 859,226,507	$ 855,274,093
Supervision of offenders and re-entry services	86,981,259	78,828,389	78,227,389
Administrative and support services	78,042,506	100,018,602	97,491,853
Operation of state residential community correctional facilities	20,422,800	19,098,675	18,498,756
Total	$1,097,245,491	$1,057,172,173	$1,049,492,091

Funds appropriated to and expended by the Virginia Parole Board are excluded.

Information on each of Corrections' program areas and the Parole Board is provided below.

Operation of Secure Correctional Facilities

The Operation of Secure Correctional Facilities Program represents efforts to house and supervise persons convicted of crimes and committed to the state to serve their sentences. This program includes the following service areas: Supervision and Management of Inmates, Rehabilitation and Treatment Services, Prison Management, Food Services, Medical and Clinical Services, Agribusiness, and Physical Plant Services. During fiscal year 2009, this program's final budget decreased by approximately $52.6 million from the original budget. Corrections transferred approximately $18.6 million from this program to the Administrative and Support Services Program and the Operation of State Residential Community Correctional Facilities Program, to realign appropriations to meet projected program expenses.

Supervision of Offenders and Re-entry Services

The Supervision of Offenders and Re-entry Services Program represents efforts to provide supervised custody of offenders within the community as an alternative to institutionalization and to continue the provision of community rehabilitative services to them after their release from confinement. This program includes the following service areas: Probation and Parole Services, Community Residential Programs, and Administrative Services. This Program previously included Day Reporting Centers; however, Corrections closed these centers during fiscal year 2009 as a result of budget reductions.

During fiscal year 2009, this program's final budget decreased by approximately $8.2 million from the original budget. Corrections transferred approximately $4.3 million from this program to the Administrative and Support Services Program to realign appropriations to meet projected program expenses. Corrections transferred an additional $550,000 to the Operation of State Residential Community Correctional Facilities Program, applied the revised fringe benefit rates to the appropriate programs, and realigned appropriations to more accurately reflect the current operating budget. Additional reductions in this program's budget resulted from transferring funds to Central Appropriations for the portion of employee benefit premiums and contribution changes which were part of budget reductions.

Administrative and Support Services

The Administrative and Support Services Program represents the administrative management and direction for all of Corrections' activities. These activities include the following: General Management and Direction, Information Technology, Accounting and Budgeting, Architecture and Engineering, Personnel, Planning and Evaluation, Procurement and Distribution, the Training Academy, and Offender Classification and Time Computation.

During fiscal year 2009, this program's final budget increased by approximately $22.0 million over the original budget as a result of transfers from other agency programs. Approximately $4.3 million came from the Supervision of Offenders and Re-entry Services Program and $18.6 million came from the Operation of Secure Correctional Facilities Program to realign the agency's appropriation to meet projected expenditures for this program.

Operation of State Residential Community Correctional Facilities

The Operation of State Residential Community Correctional Facilities Program represents efforts to operate community detention and diversion centers for offenders assigned to them by courts in lieu of incarceration in secure prisons. This program includes the following service areas: Community Facility Management, Supervision and Management of Probates, Rehabilitation and Treatment Services, Medical and Clinical Services, Food Services, and Physical Plant Services.

During fiscal year 2009, this program's final budget decreased by approximately $1.3 million from the original budget, the majority of which is due to fiscal year 2009 budget reductions. The section "Budget Reduction Impact" discusses the specific budget reductions and the impact these reductions had on Corrections.

Virginia Parole Board

Budget and Actual Expense Analysis by Program for Fiscal Year 2009

	Original Budget	Final Budget	Actual Expenses
Probation and parole determination	$760,236	$781,295	$765,727

The Probation and Parole Determination program within the Virginia Parole Board enables Corrections to investigate and supervise sentenced felons and multi-misdemeanants in the community under conditions of Probation, Post-Release or Parole, and special conditions as set by the Court or the Parole Board. The Commonwealth abolished parole for felonies committed on or after January 1, 1995, but over 75 percent of the "no parole" offenders have supervised probation following incarceration.

Duties within this activity include: case supervision, surveillance, assuring safety and security of staff, providing transitional services to offenders returning to communities, home visits, investigations and other work in support of the Courts, arrest record checks, urinalysis, referral to or direct provision of treatment services, maximizing the use of technology, and support for transfer of supervision to other localities or states. The objectives of these services are to assure that an offender does not pose a threat to the community, to offer offenders opportunities to modify behavior and attitudes, and to effect positive changes in offenders through supervision and intervention.

In fiscal year 2009, there were no significant changes between the original and final budgets for this program.

Budget Reduction Impact

When job and income growth slowed, Corrections prepared for the slowing economy by curtailing discretionary expenses and saving money from fiscal year 2008 to carry over into fiscal year 2009. For fiscal year 2009, Corrections had a general fund appropriation reduction of $17.9 million, annualized to $47.8 million in fiscal year 2010. The most substantial reduction strategies involved closing some of Corrections' facilities, including many older or smaller facilities, such as Southampton Correctional Center, Pulaski Correctional Center, Chatham Diversion Center, Dinwiddie Field Unit, Tazewell Field Unit, and White Post Detention Center. Corrections closed two additional major institutions, Botetourt Correctional Center and Brunswick Correctional Center, as part of its fiscal year 2010 budget reduction strategies.

Fiscal year 2009 reduction strategies also involved closing all Day Reporting Centers and alternatively increasing the use of electronic surveillance. Corrections also consolidated the Chesterfield Women's Detention Center and the Richmond Women's Diversion Center at the Chesterfield location and eliminated the therapeutic transitional community programs. Corrections also deferred a number of institutional equipment purchases until later fiscal years.

Corrections eliminated various support positions within institutional facilities, and fiscal employees took on greater responsibilities from fiscal positions eliminated to meet budget reductions. Overall, fiscal year 2009 budget reduction strategies impacted 702.5 positions within Corrections. Of these positions, the majority were either placed in other positions within Corrections, retired from state services, or sought employment elsewhere.

Corrections will faces additional budget reductions for fiscal years 2011 and 2012; however, management has not finalized it approach to implementing the reductions.

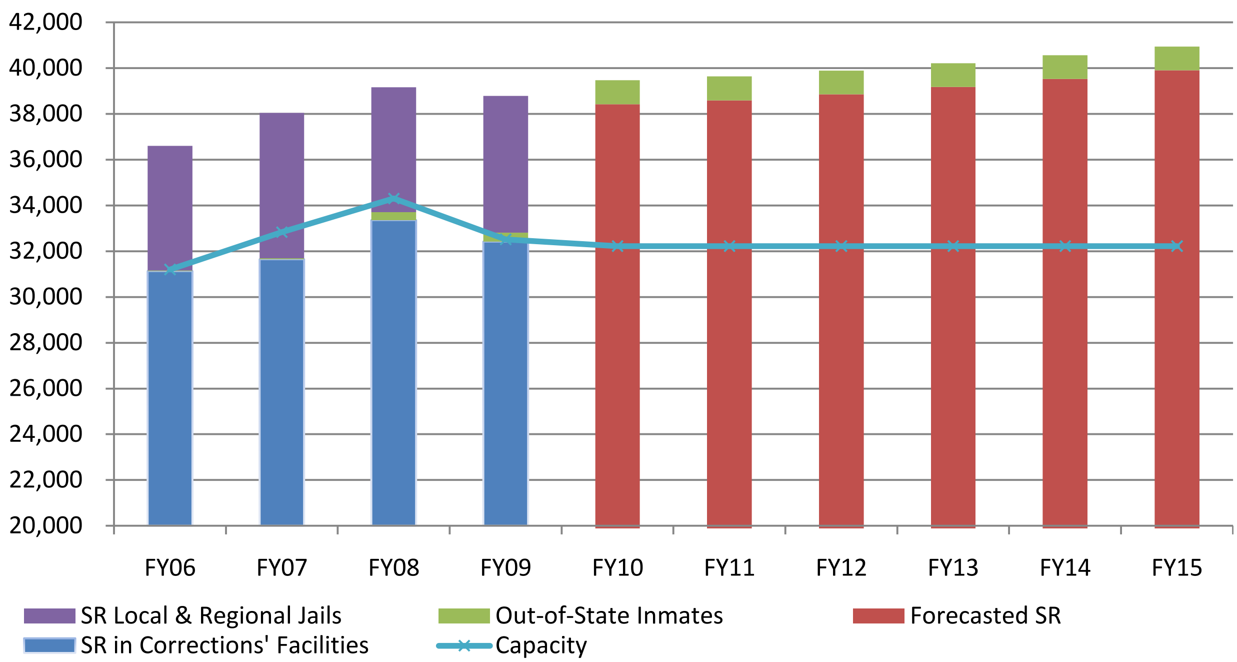
Inmate Population Forecasts and Capacity

Corrections and the Secretary of Public Safety regularly estimate and analyze inmate population, trends, and facility capacity. The Secretary of Public Safety provides an annual report in October to the Governor and General Assembly that shows offender population forecasts for the next six years. Experts from state government including the Departments of Planning and Budget, Juvenile Justice, Corrections, Criminal Justice Services and State Police, Virginia Parole Board, Compensation Board, Supreme Court, Senate Finance Committee, House Appropriations Committee, and the Virginia Sheriff's Association work along with researchers, methodologists and analysts to prepare the offender forecast.

The Secretary of Public Safety's forecast includes all state responsible inmates, including those temporarily housed in local jails, serving their sentence in a local jail, or in a local jail work release program. Corrections uses the Secretary's forecast and makes adjustments to account for those locally jailed inmates when estimating their future inmate populations that need to be housed in Correction's facilities. The following graph shows the actual and projected state responsible population, out-of-state inmates, and the capacity forecasts through 2015.

State Responsible Inmate Population and Prison Capacity Analysis

As of January 2010



Sources: Corrections' Master Plans, Inmate Population Reports, Compensation Board Jail Population Reports,and the Secretary of Public Safety's Offender Population Forecast Reports

Legend: SR represents State Responsible.

Corrections continues to use the double-bunking of inmates and temporary beds to maximize their capacity. Most facilities have already reached their maximum capacity for double-bunking, and there are approximately 849 temporary beds statewide as of February 2010. Corrections has a long-term goal to discontinue the use of temporary beds but must use these beds in order to relieve the inmate backlog in local and regional jails, referred to as out-of-compliance inmates. Inmates classified as out-of-compliance have remained in local or regional jails past the 60-day period that Corrections has to retrieve the inmate from the jail.

Corrections calculates the number of out-of-compliance inmates weekly, and as of February 2010, there were approximately 4,353 out-of-compliance State responsible inmates in local and regional jails, an increase of approximately 1,600 since 2009 due to the closing of state facilities. An inmate's sentence determines whether he or she is State responsible, and only those who remain in a local or regional jail past the 60-day period are classified as out-of-compliance; therefore, the out-of-compliance figure is less than the total number of State responsible inmates in local and regional jails, but has become an increasingly larger portion of the total over the past year.

In addition to the out-of-compliance amount, differences between capacity and the forecasted State responsible inmates include the following.

- Inmates within the 60-day period before transport to a Corrections' facility
- Where Corrections has not received the court order to allow for their transport from the jail to a Corrections' facility
- State responsible inmates who are serving their sentence in jail at the request of the jail
- Inmates who are State responsible, but are under a jail contract, work release, or re-entry stage of their sentence

Out-of-state inmates represent only a small percentage of inmates housed by Corrections. Due to the current economic situation and an approximate excess of local and regional jail beds, Corrections expects to significantly increase the renting of beds during fiscal years 2010 through 2015. In fiscal year 2010 Corrections entered into a contractual agreement with Pennsylvania to house 1,040 inmates, and these inmates transferred to Corrections' facilities in February 2010.

The prison capacity increases in fiscal years 2007 and 2008 reflect the construction of new prisons and additions to existing prisons. This construction included an expansion at the Deerfield Correctional Center and construction of the new Green Rock and the Pocahontas Correctional Centers. Capacity decreased in fiscal year 2009 due to the facilities closures of the Southampton Correctional Center, Dinwiddie Correctional Unit, Pulaski Correctional Center, and Tazewell Correctional Unit, representing a total loss of approximately 1,300 beds. Additionally, Brunswick Correctional Center (750 beds) and Botetourt Correctional Center (344 beds) closed in October 2009, representing a loss of an additional 1,094 beds. However, St. Brides Phase 2 (800 beds) opened on March 22, 2010 to offset rental beds going to Pennsylvania. The delay in opening Phase 2 was due to a lack of operating funds. The sale of beds to Pennsylvania generated non-general funds to support the operation of Phase 2.

Fiscal years 2009 through 2015 identify an increase in capacity needs. The capacity figures take into account all facility closures through fiscal year 2010 but do not include any potential closures in the 2011-2012 biennium. Corrections does not anticipate any construction funding or approval for new prisons, so the capacity remains constant for the foreseeable future. The forecasted state-responsible population greatly exceeds Corrections' forecasted capacity. For the short term, Corrections plans to work together with local and regional jails to use the excess capacity in the jails. As demand for beds increases in the local jails, Corrections anticipates receiving state funding to open the Mt. Rogers facility, which will be complete during the summer of 2010. Opening Mt. Rogers will provide 1,034 additional beds. Corrections revisits inmate population and capacity forecasts every year, and depending on the future economy and budget changes, Corrections will continue to adjust its projections as necessary.

Information Systems

Corrections recently completed implementation of an automated Offender Management Information System, VirginiaCORIS, which replaces over ten antiquated legacy systems. CORIS is the software solution purchased from the xwave New England Corporation.

VirginiaCORIS is an initiative to modernize the way Corrections manages offender information. The system provides real time offender data to authorized users, enhances the ability to share offender information with others, improves the quality of the offender data, and improves the reporting and decision making ability of the entire Department.

VirginiaCORIS included three major projects that Corrections released between 2006 and 2010: Offender Sentence Calculation (Project 1); Community Corrections (Project 2); and Institutional Operations (Project 3). Corrections released Project 3 in February 2010, and the final product results in a single, fully integrated system that replaces Corrections' legacy offender-related applications.

The Information Technology Infrastructure Partnership (Partnership) between the Virginia Information Technologies Agency and Northrup Grumman continues to transform Corrections' systems hardware. As of the issue date of this report, the Partnership has not relocated the hardware from Correction's headquarters building to the Partnership's data center.

Prison Privatization

Corrections has one privately operated medium security prison in Lawrenceville which opened in 1998. The Geo Group, Inc. (formerly the Wackenhut Correctional Corporation) is operating the prison under a contract with Corrections that 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 per diem rate is currently $41.66 for the first 1,425 inmates and $7.04 for each inmate above 1,425. The contract adjusts the per diem rates annually on March 23 based on the Consumer Products Index for wage earners. Also under the contract, the GEO Group must maintain the American Corrections Association (ACA) accreditation and meet Corrections' internal standards. In its most recent re-accreditation inspection, the Lawrenceville Correctional Center met 100 percent of mandatory and 100 percent of non-mandatory ACA standards and received its reaccreditation again in October 2009.

VIRGINIA CORRECTIONAL ENTERPRISES

AUDIT FINDINGS AND RECOMMENDATIONS

Strengthen Controls Over Capital Asset Useful Life Methodologies

Virginia Correctional Enterprises (VCE) does not have adequate policies in place for assigning and reevaluating useful lives of depreciable capital assets. VCE has not documented an adequate agency-specific useful life methodology that takes into account the agency's actual historical use of assets. Additionally, VCE is not properly reevaluating and updating useful lives based on actual estimates of agency use. As a result, VCE has a significant amount of fully depreciated assets that are still in use by the agency.

GASB Statement No. 34, implemented in 2002, requires government funds to record depreciation expense and the depreciated asset values on the face of the financial statements. The second implementation guide for GASB Statement No. 34 requires a reconsideration of the estimated useful lives assigned to capital assets and indicates that agencies should not report as fully depreciated assets items still in use. Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies' own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to properly reflect the asset's remaining life.

VCE should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the reevaluation of currently assigned useful lives. This policy should be specific to VCE and its operations and take into account the agency's actual use of specific assets.

AGENCY HIGHLIGHTS

Corrections has operated Virginia Correctional Enterprises (VCE) since 1934 as one of its many work programs for inmates. The Code of Virginia requires VCE to provide job skill training and wage earning opportunities for Corrections' inmates. As of March 2010, VCE employed 1,473 inmates housed in State correctional facilities. These inmates work in 26 operations at 13 institutions. VCE also employs approximately 180 civilian staff who work in the central office and warehouse in Richmond or in the various correctional facilities throughout the state.

Section 53.1-47 of the Code of Virginia requires all Commonwealth departments, institutions, and agencies, supported in whole or in part with funds from the state treasury, to purchase goods manufactured by VCE. Agencies must obtain a waiver in order to purchase the same goods VCE manufactures from another vendor. For fiscal year 2009, state agencies accounted for approximately 54 percent of sales; colleges and universities, local governments, and not for profit businesses purchased the remaining 46 percent.

Financial Summary

VCE is a self-sufficient operation, paying for all expenses from monies collected for sales of its goods and services. The following table summarizes VCE's budget and actual operating activity for fiscal year 2009:

Budget and Actual Expense Analysis by Program for Fiscal Year 2009

	Original Budget	Final Budget	Actual Expenses
Operation of secure correctional facilities	$51,355,345	$45,010,225	$44,619,440

VCE sales and operating income decreased only slightly from fiscal year 2008 to 2009 as a result of budget reductions in state government. The following information from VCE's internal accounting system summarizes financial results for fiscal years 2008 and 2009.

Year Ended	June 30, 2009	June 30, 2008
Charges for sales and services	$47,328,129	$48,680,695
Cost of goods sold:		
Raw materials consumed	18,833,030	20,440,139
Inmate compensation	1,610,950	1,561,052
Total cost of goods sold	20,443,980	22,001,192
Manufacturing overhead	13,460,980	13,337,856
Administrative and warehouse expenses	10,710,421	11,707,354
Total cost of goods, overhead, and operating expenses	44,615,381	47,046,402
Operating income	2,712,748	1,634,293
Transfers to the General Fund	(1,160,419)	(887,397)
Other income	295,550	729,466
Non-operating revenues/(expenses)	(864,869)	(157,931)
Net income	$ 1,847,879	$ 1,476,363

Sales and Inventory Information by Industry

VCE operates 13 industries. Of these industries, the wood industry is the largest in sales volume, accounting for over 26 percent of all sales, and is largest in inventory volume, accounting for over 41 percent of all inventories in fiscal year 2009. Overall, six industries account for the majority of sales and inventory, as shown below.

	Revenue	Inventory
Wood	$ 12,364,737	$ 4,945,704
Key Office Systems	9,773,554	2,029,648
Tags	7,249,399	1,527,473
Clothing	4,171,743	1,480,615
Metal	3,665,447	1,278,327
Print	3,685,720	375,549
Other	6,417,529	427,997
Total	$ 47,328,129	$ 12,065,313

The inventory balance consists of raw material, work-in-progress, and finished goods for all industries. VCE maintains a perpetual inventory system. The plant staff performs a complete inventory count each February, instead of fiscal year end, due to increased orders and high production towards the end of the fiscal year. During the last quarter of the fiscal year, VCE increases the number of test counts at each plant to ensure that the plants are correctly reporting inventory balances at fiscal year end.

Commonwealth of Virginia

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

May 10, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Corrections, Virginia Parole Board,** and **Virginia Correctional Enterprises** (herein collectively identified as the Department) for the year ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Department's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia and in the SyteLine system for Virginia Correctional Enterprises (VCE) for the year ended June 30, 2009. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, reviewed the adequacy of the Department's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

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 significance and 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.

Appropriations
Expenditures, including payroll
Contract management
Capital outlay
Inmate trust funds
Commissary funds
Inventory
Revenues and cash receipts
Performance measures
Agency-owned and leased vehicles and associated fuel charge cards

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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in SyteLine. VCE records its financial transactions in its accounting records on the accrual basis of accounting. All other entities within the Department record their 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, the Department's Annual Management Information Summary Reports, Master Plan Reports, and VCE's accounting records and financial reports.

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

The Department has not taken corrective action with respect to all audit findings reported in the prior report. The matters entitled "Continue to Improve Controls and Processes Surrounding Construction in Progress" and "Develop Internal Controls for Leave Liability and Time Tracking System" are repeated in the section entitled "Audit 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 letter.

Exit Conference and Report Distribution

We discussed this report with management on May 10, 2010. 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

DBC/alh

COMMONWEALTH of VIRGINIA

GENE M. JOHNSON
DIRECTOR

Department of Corrections

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

May 14, 2010

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

RE: APA Audit Report on the Department of Corrections, Virginia Parole Board and Virginia Correctional Enterprises for the Fiscal Year Ended June 30, 2009.

Dear Mr. Kucharski:

Enclosed is the Department of Corrections' response to the Auditor of Public Accounts (APA) report pertaining to the Department, the Virginia Parole Board and Virginia Correctional Enterprises for the fiscal year ending June 30, 2009. We appreciate the opportunity to respond to the report findings prior to formal publications of the report.

We believe the Department of Corrections and Virginia Correctional Enterprises have viable responses, accompanied by corrective action plans which are appropriate and specifically address the issues raised by the APA. Combined with actions already taken and currently under way, the Department's objective to comply with applicable laws and regulations will serve to strengthen and control our operations and financial records.

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

Sincerely,

N.H. Scott

N.H. Scott
Deputy Director
Administration

Enclosure

cc: Mr. Gene M. Johnson
Mr. Louis B. Eacho

DEPARTMENT OF CORRECTIONS RESPONSES
AND
MANAGEMENT'S CORRECTIVE ACTION PLANS

Continue to Improve Controls and Processes Surrounding Construction in Progress

The Department of Corrections (Corrections) has made significant improvement in its ability to properly record capital assets and capital outlay. Corrections transferred the responsibility for recording Construction in Progress and related capital assets in the fixed asset system to the Budget Office, along with coordination from the Architectural and Engineering Services division. This was the first fiscal year in which these changes took effect, and it greatly streamlined the process and reduced errors.

However, when communicating Construction in Progress (CIP) amounts to the Department of Accounts at fiscal year-end on Attachment 14, Corrections did not include $11.6 million in expenditures related to energy performance contracts as CIP increases. Additionally, Corrections understated CIP decreases by $2.3 million by not reporting decreases in energy performance contracts. Additionally, Corrections did not decrease CIP for amounts expensed and not capitalized in other asset categories (land, building, infrastructure, or equipment). This understated the CIP decreases by an additional $5.9 million. The result to the Commonwealth's financial statements would have been a $3.4 million understatement of non-depreciable capital assets.

Corrections' should develop and implement processes to ensure energy performance contracts are included in CIP on the Attachment 14, and to ensure CIP reasonably reflects the activity that is actually occurring for capitalized and expensed items. Corrections should also continue to seek advice from the Department of Accounts on any related areas about which they are uncertain. Such processes will save Corrections' time in communicating the information at year-end and prevent misstatement of CIP amounts in the Commonwealth's financial statements.

DOC Response:

The Department of Corrections (DOC) appreciates the acknowledgement by the Auditor of Public Accounts (APA) of its more streamlined process which has significantly improved the Department's ability to properly record capital assets and capital outlay and which has resulted in the reduction of errors.

As cited in the management letter, FY 2009was the first year that the Budget Office was responsible for recording Construction in Progress and related capital assets, and by extension preparation of Attachment 14 as part of the Comprehensive Annual Financial Report (CAFR). As required the Department submitted its Attachment 14 on August 13, 2009. Once submitted, the Budget Office (specifically Elaine Cline) was in almost daily contact with Chris DiRienzo of the Department of Accounts (DOA) to ensure that the information had been submitted properly. While the discrepancies noted in the memorandum were part of the Department's initial submission, they were resolved and corrected for inclusion in the final version, submitted on September 9, 2009, thus preventing a misstatement of CIP amounts in the Commonwealth's financial statements.

Management Plan for Corrective Action:

The progress in CIP has largely been the result of the outstanding coordination and cooperation between the Budget Office and Architectural and Engineering staff and level of guidance sought by DOC and provided by DOA. Among the outcomes of the Department's submission of Attachment 14 has been the development of a spreadsheet that will track increases and decreases that will reduce the amount of time required to compile the information in the future and reduce the likelihood of error in reporting CIP amounts. The spreadsheet, which has been developed to aid in the preparation of Attachment 14, includes the Energy Performance Contract information and is tracked to ensure that these assets are capitalized or expensed properly. The Budget Office will continue to seek the guidance of DOA as necessary on CIP as well as FAACS issues.

Responsible Parties:

DOC, Budget Manager, Financial Management & Reporting

Estimated Completion Date:

2nd Quarter of FY 2011 (this will allow time to evaluate the effectiveness of the process now in place to provide data for the compilation of the Attachment 14 for FY 2010.

<u>Develop Internal Controls for Leave Liability and Time Tracking System</u>

As indicated in the prior year audit report, Corrections' time and leave system (DOCXL) used at their facilities continues to have inadequate internal controls resulting in unreliable data. Best practices such as audit trails, controls to prevent changes to formulas and computations, and the capture of all transactional activity, do not exist in DOCXL.

DOCXL is an Excel spreadsheet application that uses a spreadsheet template for each employee. Individual employees' DOCXL files are located on a network drive. The files are password protected and only certain individuals, most of them Human Resource employees, have passwords to the files.

We noted the following issues.

1. Employees had write access that do not need it to perform job responsibilities.

2. Once a person has write access to the files with the employee spreadsheets, users can enter, change, and delete data and formulas in any or all of the spreadsheets with no trail to indicate what they did.

3. Human Resource enters hours worked and leave information each pay cycle and Corrections relies on supervisor and employee reviews and sign-offs to verify the accuracy of that cycle's information. However, the system does not prevent changes to a previous activity after the sign off occurs and as stated earlier there is no audit trail. As a result, someone could change information previously approved as correct by the supervisor without the supervisor detecting the alteration.

4. DOCXL system does not protect computational formulas, which could result in intentional or unintentional formula changes that result in errors in the amount of leave and/or time reported.

5. When converting leave balances from DOCXL to the leave liability spreadsheets, numerous errors resulted from manual and/or programmatic input codes.

Corrections would be an ideal candidate to implement the Commonwealth's enterprise time and effort system under consideration by the Virginia Enterprise Applications Project Office. However, the timeframe for implementing this enterprise solution is uncertain at this time. As an interim solution we recommend that Corrections consider purchasing or developing a more robust time and effort system that provides adequate internal controls. Using Excel to manage the time and effort for an organization with more than 11,500 employees and numerous facilities is not adequate. Excel does not provide adequate security, an audit trail of transactions, or control changes to ensure the accuracy of how the system performs the calculations. Until DOCXL is replaced, the accuracy of time and leave data at Corrections is questionable and identifying that someone inaccurately reported or modified recorded time or leave is also questionable.

DOC Response:

As requested, the information included is provided in addition to the November 30, 2009 response. The Department of Corrections (DOC) has and continues to be agreeable to meeting the expectations of the Auditor of Public Accounts (APA) in any manner feasible.

The DOCXL system continues to prompt a finding for what is deemed "inadequate internal controls resulting in unreliable data." While unconventional and certainly not perfect, DOCXL has provided the DOC with significant efficiencies in time and leave liability management over the past several years. We have explained in great detail over the last several years the realized capabilities of this system and our recognition of its shortcomings. Another exhaustive explanation serves little purpose and does not meet the needs and desires of the auditors for improvement and enhancement.

Significant improvements have been made in the system in 2007, 2008 and 2009. While we continue to be unable to meet all the internal control issues/findings that have been raised (in the past several Audits), we have attempted to design modifications to address the intent of the issue/finding and provide a reasonable remedy. The DOC continues to pursue remedies and solutions that will meet all the expectations of the APA. While DOCXL is a temporary, workable solution for the needs of the DOC, the reality is the system's capabilities for stringent internal controls are limited for the very reasons listed by the auditor.

Review of our November 2009 response to the findings from the audit will provide much detail regarding improvements, challenges in pursuing non-existent solutions with the Commonwealth and continued independent pursuits of solutions for the DOC. The task force continues to meet with vendors and has a desired solution with a "reasonable" quote of a basic system for time, attendance and leave that would meet the unique needs of this agency at 4 million dollars for implementation.

Management Plan for Corrective Action:

1. DOC has reviewed levels of access and excluding local and central IT employees and a few terminated employees, could not locate any employees with write access who do not perform time and leave keeping responsibilities or do not have back-up responsibility for same. The actual granting of access and access levels is now a function of VITA/NG.

2. DOC has limited levels of access and requires paper trail of "corrected copy" to be attached to original in the event a correction is needed.

3. DOC will continue use of linking feature that limits need for manual input.

4. More detailed instructions regarding changes are being sent out specifically highlighting changes that must be made prior to reporting. Individuals who failed to make changes timely are being coached and additional actions may be taken.

Responsible Parties:

Liz Thornton, Employee Relations Manager

Estimated Completion Date:

Changes above have already been implemented. DOC will continue to pursue solutions that will meet the objectives of the APA and meet the needs of the Department. The cost of an effective solution is prohibitive given the current budget climate. However, consideration should be given to the significant savings to be realized, both short and long-term, through appropriate management of staff resources, control of overtime liability and control of leave liability for the DOC (the largest state agency) through the purchase or design of a time, attendance and leave system. The Commonwealth has an opportunity to ensure excellent fiscal stewardship and meet the test of citizen approval by a clear articulation of the savings to be generated through purchase of a contemporary system and execution of an aggressive implementation schedule to manage the 11,500 employees currently being handled through DOCXL. *Capital funds should be set aside, by the Legislature, for this large scale purchase and implementation for the fiscal year 2011 in pursuit of both the APA objectives and the ROI to be realized from proper management of time, attendance and leave for the Department.*

<u>Enforce Policies and Procedures Governing Un-Allowed Charge Card Purchases</u>

Our fiscal year 2009 audit included a review of fifteen transactions charged to a restricted Merchant Category Code (MCC), as specified in the Commonwealth of Virginia Purchasing Card Restriction Table. Charge Card Program Administrators could not provide documentation supporting the request to remove these MCCs for six of the transactions reviewed.

For these transactions, we could not determine whether personnel made the appropriate request to remove the Industry Restriction. As stated in the CAPP Manual Topic 20355, Program Administrators can remove restrictions for valid reasons, but the cardholder's supervisor should put in writing the reason for removing the restriction and maintain a copy of the approval for audit. Additionally, Program Administrators are responsible for ensuring all cards have appropriate restrictions by auditing the Industry Restrictions placed on all cards at least monthly. Not properly documenting or monitoring lifted restrictions increases the risk of employees making improper purchases.

We recommend that Corrections' Small Purchase Charge Card Program Administrators review charge cards to determine which cards have restrictions lifted, ensure that the removed restrictions are still reasonable, and document for future audits. Additionally, for Industry Restrictions removed in the future, Corrections should appropriately maintain all documentation of requests for removal.

DOC Response:

The DOC agrees that "some" of its PCard Program Administrators have not been properly documenting and maintaining record of removal of Industry Restrictions. The CAPP Manual specifically states, "All cards should have all six Industry Restriction tables on them unless there is written documentation to support the need for removal either on a temporary or permanent basis. Temporary or permanent removal of these restrictions to allow for non-travel related purchases (e.g., meeting rooms or catered business meals) may be considered by the agency Program Administrator on a case-by-case basis."

Management Plan for Corrective Action:

1. The DOC is updating its Procurement Procedure 260.1 to require all PCard Administrators to review CAPP Topic 20355 and the DOC SPCC Instruction Guide annually and to certify completion of such to the DOC Procurement Director on or before June 30 of each year.

2. The DOC SPCC Instruction Guide shall be updated to reiterate the CAPP Manual Topic 20355 requirement to maintain written documentation to support the need for removal either on a temporary or permanent basis.
3. The DOC Procurement Director issued an e-mail to all DOC Program Administrators and Program Administrator Back-ups on April 14, 2010 reiterating the requirement to maintain written documentation with valid reasons for removal of Industry Restrictions from PCards.

Responsible Parties:

All DOC PCard Program Administrators and Program Administrator Back-ups

Estimated Completion Date:

See 'Management Plan for Corrective Action #1' – Procedure 260.1 will be revised and posted on the Virtual Library on or before 6/30/10. The annual Program Administrator and Program Administrator Back-up certification of review of CAPP Manual Topic 20355 and the DOC SPCC Guide annually shall occur by 6/30 each year (on-going).

See 'Management Plan for Corrective Action #2' – to be completed by 6/30/10

See 'Management Plan for Corrective Action # 3' – completed April 14, 2010

Improve Procedures for Monitoring Vehicle and Fuel Card Use

Corrections does not consistently maintain supporting documentation of agency vehicle and fuel card usage, which prevents the agency from ensuring that employees appropriately use agency vehicles and fuel cards for State business. Furthermore, Corrections does not properly reconcile supporting documentation for fuel purchases to monthly fuel card statements, which resulted in multiple overpayments to Mansfield Oil, the Voyager fuel card vendor, in fiscal year 2009. Corrections' fiscal year 2009 payments to Mansfield Oil were approximately $1.4 million.

We reviewed forty-five Voyager fuel card transactions. Of the forty-five transactions reviewed, Corrections either inaccurately processed or could not support eleven transactions. For two of these transactions, the vendor charged an amount greater than the actual transaction price, which resulted in Corrections overpaying Mansfield Oil. We found that neither the individual units nor the General Services Unit reviews the monthly statement of charges for appropriateness of card use to include a reconciliation of all charges before processing payment to the card vendor.

Because Corrections does not properly reconcile all charges, they did not identify these inaccurate charges and could not recover the funds. Agency employees could not sufficiently substantiate the remaining nine transactions due to lack of documentation. The units with vehicle assignments do not consistently maintain records of all vehicle and card usage, including transaction receipts and sign out sheets; therefore, employees were not always able to explain questionable transactions.

Agencies are responsible for managing the Voyager card program in a manner consistent with all applicable State accounting policies and procedures related to the use of charge card programs. Agencies assume ultimate responsibility for employees' use of fuel cards as well as the accountability for the physical security of the fuel cards.

To ensure adequate internal controls, Corrections should develop, document, and implement agency-specific policies and procedures governing the assignment and use of agency-owned vehicles, Department of

General Services Office of Fleet Management Services leased fleet vehicles, and all Voyager fuel cards. Corrections should communicate these policies and procedures to employees and enforce compliance. The risk of fraud and the potential for errors and improper payments increases without documented procedures that all agency employees follow.

DOC Response:

DOC will implement Policy and Procedure to require a monthly verification of charges against DOC and State Fleet fuel credit cards.

Management Plan for Corrective Action:

DOC will require monthly verification of all charges against agency and State Fleet (OFMS) fuel credit cards. Facilities/units will notify GSU manager of any discrepancies found in their monthly bill for credit cards. GSU staff will work with credit card company to reconcile improper billings.

Responsible Parties:

GSU staff will provide monthly billing reports to facilities/ units that do not receive direct billing from fuel credit card company. Facility/unit will review the report, verify the accuracy and authorize payment or nonpayment of bill. GSU will work with credit card company to reconcile any inaccuracies in billing.

Estimated Completion Date:

Policy and Procedure will be revised to include the review requirement by July 1, 2010.

Improve Procedures for Tracking Vehicle Inventory

Corrections does not track its vehicles regularly to account for all agency-owned and leased vehicles. As a result, the agency's vehicle listings are inaccurate and incomplete. Our fiscal year 2009 audit included a review of Corrections' 2,500 agency-owned vehicles and 600 vehicles leased from the Department of General Services' Office of Fleet Management Services (OFMS). Corrections' General Services Unit maintains lists of these vehicles.

General Services Unit's list of agency-owned vehicles did not agree fully to a list of Corrections' vehicles from the Commonwealth's Fixed Asset Accounting and Control System (FAACS). Corrections should regularly reconcile its inventory of agency vehicles with the assets recorded in FAACS to ensure proper accounting for all agency-owned vehicles and that FAACS records are accurate. It is vital that the vehicle management and accounting functions interact and ensure that the vehicles that employees use in the course of business are the same vehicles recorded for financial reporting purposes. An inaccurate inventory of agency-owned vehicles reduces the ability to track vehicles used by agency employees, increases the potential for misuse of vehicles, and increases the potential for inaccurate financial reporting.

Additionally, Corrections' list of vehicles leased from the OFMS did not agree fully to an OFMS list of vehicles leased to Corrections. We found discrepancies in both Correction's listing as well as the OFMS listing. Corrections should regularly reconcile its inventory of leased vehicles with the OFMS' records to ensure that they properly account for leased vehicles. An inaccurate inventory of leased vehicles reduces the ability to track vehicles used by agency employees, increases the potential for misuse of vehicles, and increases the potential for improper lease payments to the OFMS.

We recommend that Corrections develop and implement controls to ensure that the vehicle management function and the accounting function interact to ensure that the vehicles the agency owns and uses are the same as the vehicles included in FAACS for financial reporting purposes. Additionally, Corrections should develop and implement controls to ensure that they accurately account for vehicles leased from the OFMS and that Corrections' inventory of leased vehicles reconciles with the OFMS' records of vehicles leased to Corrections.

DOC Response:

DOC will implement Policies and Procedures to require an annual review and cross reference of General Services vehicle inventory of agency owned vehicles and individual facility/unit listings of vehicles on their FAACS report.

Management Plan for Corrective Action:

General Services Manager will revise Policy and Procedure to require the annual verification of GSU agency owned vehicle inventory against individual facility/unit FACCS inventory listing. GSU staff and facility staff will reconcile and verify the accuracy of listings on each inventory and if necessary modify and correct the inventories.

Responsible Parties:

GSU manager will revise Policy and Procedure. GSU staff will be responsible for maintaining GSU inventories and facility/unit FAACS coordinators will be responsible for maintaining FACCS inventories. GSU manager and facility/unit head will be responsible for sign off on the accuracy of the final report.

Estimated Completion Date:

Policy and Procedures revision will be completed by July 1, 2010.

<u>Update IT Risk Management Plans</u>

Corrections has not updated its Information Technology (IT) risk management and contingency plans to reflect changes in its IT environment since November 2007. The Commonwealth's Information Security Standard requires that Corrections update and test its IT risk management and contingency plan documents after major changes in its IT environment.

Corrections' IT environment has gone through significant changes, including the elimination of legacy systems and the transfer of ownership of technology infrastructure to the Virginia Information Technologies Agency's IT Infrastructure Partnership with Northrop Grumman (Partnership.) As a result, Corrections does not have effective and reliable plans to guide the restoration and recovery of information systems that support essential business functions.

We recommend that Corrections implement a process to periodically review, update, and test the adequacy and accuracy of critical Information Security Program components, including the Risk Assessment, Business Impact Analysis, Continuity of Operations Plan, and Disaster Recovery Plan. Regular testing and updating of these documents helps Corrections determine if they have the necessary resources available to restore systems in the event of an outage or disaster. The Department should use the updated risk management and contingency plans to determine which backup and data restoration services it needs from the Partnership.

DOC Response:

DOC takes continuity of operations and disaster recovery very seriously as prison and probation and parole operations require network support and system availability as critical functions. DOC has spent numerous hours educating the VITA/NG partnership over the criticality of network availability as well as hardware system uptime to perform basic daily operations, which include access to critical applications including VirginiaCORIS and important communication like Voice over IP (VOIP). DOC no longer has the ownership or the responsibility of maintaining the network or hardware infrastructure and must rely on the VITA/NG partnership to provide these services consistently and reliably.

DOC's Business Impact Analysis was completed in November, 2007 and reflected the implementation of VirginiaCORIS. It has always been our intention that the Business Impact Analysis, the agency COOP plan, and the Disaster recovery plan would be updated to reflect the major changes to the technical environment as a result of major functionality implementations.

As stated in the preliminary review, DOC continues to be concerned about server relocation and has spoken at length to the Partnership about server relocation. DOC servers will ultimately reside at the new data center at CESC in Chester, Virginia. We have been notified that server relocation is no longer considered part of transformation, and as previously indicated to APA staff, there was confusion by VITA as to what servers would be relocated to that data center. (see the response from DOC dated 04/16/2010).

Rick Davis, Chief Technology Officer has also expressed his concern to the Partnership regarding a hot site for Microsoft .net, SQL server applications at SWESC. The Partnership in March, 2010 has indicated that there are working on a hot site for Oracle based application failover at SWESC – but did not have immediate plans for SQL server hot site. Again, please see the response dated 04/16/2010 regarding our ongoing concern over these issues. DOC has met with VITA/NG disaster recovery staff and has completed a checklist of issues on April 12th regarding the requirements for disaster recovery. DOC received a follow-up from the Partnership on May 11th regarding additional information/clarification of the information.

Management Plan for Corrective Action:

DOC will update the BIA, the COOP, and the Disaster recovery plans in the Summer, 2010 to reflect major system changes and enhancements, and upgrades to VirginiaCORIS which have been implemented.

Responsible Parties:

Rick Davis, Chief Technology Officer, Felicia Stretcher, Agency Information Technology Resource, Cherrey Wallace, Information Security Officer

Estimated Completion Date:

August 2010

<u>Strengthen Controls Over Capital Asset Useful Life Methodologies</u>

Virginia Correctional Enterprises (VCE) does not have adequate policies in place for assigning and reevaluating useful lives of depreciable capital assets. VCE has not documented an adequate agency-specific useful life methodology that takes into account the agency's actual historical use of assets. Additionally, VCE is not properly reevaluating and updating useful lives based on actual estimates of agency use. As a result, VCE has a significant amount of fully depreciated assets that are still in use by the agency.

GASB Statement No. 34, implemented in 2002, requires government funds to record depreciation expense and the depreciated asset values on the face of the financial statements. The second implementation guide for GASB Statement No. 34 requires a reconsideration of the estimated useful lives assigned to capital assets and indicates that agencies should not report as fully depreciated assets items still in use. Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies' own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to properly reflect the asset's remaining life.

VCE should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the reevaluation of currently assigned useful lives. This policy should be specific to VCE and its operations and take into account the agency's actual use of specific assets.

DOC Response:

While VCE does not have a formal written procedure related to assigning and re-evaluating the useful life of fixed assets, we have utilized a consistent methodology that includes reviewing past experience for similar assets and periodic review of assets prior to being fully depreciated. Management agrees that a formal procedure would enhance this process.

Management Plan for Corrective Action:

Issue written procedures documenting the methodology for assigning and re-evaluating the useful life of depreciable capital assets.

Responsible Parties:

VCE Manager of Accounting.

Estimated Completion Date:

First quarter of FY2011.

AGENCY OFFICIALS

DEPARTMENT OF CORRECTIONS

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John Jabe, Deputy Director

N.H. “Cookie” Scott, Deputy Director

James R. Camache, Deputy Director

H. Paul Broughton, Deputy Director

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