

AUDIT SUMMARY

Our audit of the Department of Juvenile Justice for the year ended June 30, 1999 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in the internal control structure; however, we did identify two matters that we consider reportable conditions; and
- no instances of noncompliance that are required to be reported.

Our audit findings are discussed in the section entitled “Internal Control Findings and Recommendations.”

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May 8, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Juvenile Justice** for the year ended June 30, 1999. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope and Methodology

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

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

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures 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 laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on internal control or 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 procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material aspects, 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 the Department's records.

We noted certain matters involving internal control and its operation that we considered 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 judgement, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial records. Reportable conditions are discussed in the section entitled "Internal Control Findings and Recommendations." We believe that none of the reportable conditions are material weaknesses.

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

The Department has not taken adequate corrective action with respect to the previously reported finding, "Improve Controls over Equipment." Accordingly, we included this finding in the subsection entitled "Internal Control 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.

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 May 30, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Improve Controls over Equipment

As reported in our previous audit, the Department should improve procedures for recording and tracking equipment. The Department has almost 1,500 pieces of equipment costing over \$6 million, most of which is located in juvenile correctional centers (JCC). The Department uses the Fixed Asset Accounting and Control System (FAACS) to record its equipment. We reviewed equipment at Oak Ridge JCC, Bon Air JCC, and Natural Bridge JCC and found the following internal control weaknesses.

- Oak Ridge JCC did not properly tag two of five pieces of equipment tested, could not locate one piece of equipment tested, and has not performed a complete equipment inventory within the past two years.
- Bon Air JCC did not properly tag three of six pieces of equipment tested, could not locate two pieces of equipment tested, and has not performed a complete equipment inventory since 1996. This facility is currently performing an equipment inventory.
- Natural Bridge JCC did not properly tag one of four pieces of equipment tested. The equipment had a tag but the number was different than the tag number listed in FAACS.
- Central Office has not performed a complete fixed asset inventory within the past two years and could not locate documentation on the disposition of two JCC assets.

The Department should improve procedures for receiving, recording, and tracking equipment to adequately protect these assets. The Department should have documented procedures that detail Central Office's responsibilities, as well as the JCC's procedures. The Department should also ensure that JCC staff have adequate training in their responsibilities. The Commonwealth's Accounting Policies and Procedures Manual also requires agencies to control and track assets and perform periodic inventories.

Improve Procedures for Small Purchase Charge Card Program

The Department needs to improve procedures over its small purchase charge card program. The Department has issued the charge card to approximately 160 staff for purchasing various small goods and services. Department staff made purchases of over \$1.8 million under the program in fiscal 1999. The Department has developed policies and procedures for the program; however, we found the following instances where the procedures were not followed:

- The Department's procedures require a supervisor review and approve charges made by each employee every month. We found numerous instances where employees reviewed and approved their own charges. The Department should ensure that an individual independent of purchase, review and approve the transaction.
- The Department's policies set monthly credit limits for each employee. We found 2 instances where employees exceeded their credit limit and 1 instance where an employee split a purchase into eight separate charges to one vendor to remain within a per transaction spending limit. The Department should review the individual credit limits for reasonableness, and modify as necessary.

- The Department's procedures require that an individual turn in their charge card upon separating from the agency. In fiscal 2000, we found charges on an employee's account after their separation date. Although the charges were legitimate, the Department needs to ensure the prompt cancellation of terminated employee's charge cards.

In addition, the Department's procedures over the charge card reconciliation need to be improved. The Department's procedures require a supervisor to review each individual employee's documentation of charges each month. However, there is not a reconciliation of this documentation to the Department's bill each month. Consequently, the Department's bill could include charges that have not had supervisory approval. We recommend the Department review and strengthen procedures over the charge card payment and reconciliation process.

AGENCY INFORMATION

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

- Thirty-five Juvenile and Domestic Relations Court Service Units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates thirty-two units and localities operate three.
- Seven juvenile correctional centers (JCC) provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs.
- A Reception and Diagnostic Center provides psychological, educational, social, and medical evaluations for committed youth.
- One privately operated boot camp provides a 5 to 10 month program that consists of 4 to 6 months residential treatment and 6 months of aftercare in the community.
- Four halfway houses provide 24-hour residential and treatment services for youth returning to their communities. The Department operates three of the houses with the other privately operated.
- Twenty-one secure detention homes provide temporary care of juveniles who require secure custody pending court disposition or placement. The Department operates one home and the remaining homes are under local administration.

The Department has over 2,400 employees, most of which are staffed at the correctional centers and court service units. Since the Department's creation in 1990, the Department has experienced many personnel changes. The Department has had eight different Directors, six within the past three years. The lack of consistent leadership has made it difficult for this agency to establish continuity. Within the past two years, there has also been significant turnover of accounting and capital outlay staff in the central office. There is also significant employee turnover in the JCCs, particularly among juvenile correctional officers. The turnover rate for juvenile correctional officers has reached up to 40% in some JCCs. One of the JCCs has also been without a business manager for several months.

FINANCIAL INFORMATION

The Department's main source of funding is General Fund appropriations. General fund appropriations accounted for over 90% of the Department's revenue in fiscal 1999. The Department also receives federal grants and some miscellaneous revenues. The following chart shows total actual operating appropriations and expenses for the last three fiscal years. The Department also receives capital project appropriations for state facilities, which the chart does not include.

	1997	1998	1999
Original appropriations	\$148,422,178	\$171,889,593	\$183,602,910
Adjustments:			
Carry over from previous year	10,509,584	18,578,286	21,705,020
Regrade	-	4,090,268	1,669,588
Other increases	1,655,618	2,602,661	849,308
Other decreases	<u>(4,889,711)</u>	<u>(5,689,479)</u>	<u>(91,006)</u>
Adjusted appropriations	<u>155,697,669</u>	<u>191,471,329</u>	<u>207,735,820</u>
Expenses:			
Financial assistance to localities	40,245,867	50,956,699	74,133,794
Court service units and regional offices	36,899,102	41,483,886	43,041,815
Juvenile correctional centers	33,890,217	45,639,715	54,223,949
Central office	13,673,592	16,039,788	17,846,934
Other	<u>10,710,799</u>	<u>12,877,665</u>	<u>4,600,432</u>
Total expenses	<u>135,419,577</u>	<u>166,997,753</u>	<u>193,846,924</u>
Excess of appropriation over expenses	<u>\$ 20,278,092</u>	<u>\$ 24,473,576</u>	<u>\$ 13,888,896</u>

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

Over the last three years, the Department's operating expenses have increased by over \$58 million, a 43 percent increase. Most of this increase comes from increased costs of operating JCCs as the Department adds new facilities and increases assistance to localities to fund the Virginia Juvenile Community Crime Control Act (VJCCCA). In each of the last three years, operating appropriations have exceeded expenses resulting in large carry forward balances. Most of these balances represent the Commonwealth's share of local facility construction projects, which may span several years. The Commonwealth typically appropriates these funds in the first year of the project; although the locality does not receive payment until the project's completion, which may take several years.

Most of the Department's operating expenses are for financial assistance to localities, court service units, and JCCs. In fiscal 1999, these expenses were over 85 percent of the Department's total operating expenses. We discuss each of these areas in more detail below.

Financial Assistance to Localities

The Department makes payments to localities for the construction, maintenance, and operation of local or regional detention centers, group homes, and numerous other related facilities. These facilities house juveniles who are awaiting sentencing or provide housing for juveniles who require a less secure environment. There are 20 local detention centers statewide, which can house over 1,100 juveniles. The department also funds various group homes and day centers, which also house delinquent juveniles.

Localities request funds from the Department and the Board approves these requests. These payments come almost entirely from general fund appropriations, in the form of block grants and VJCCCA funds. Over the last three years, payments to localities have increased by over \$33 million (82 percent), as more funding was available under the VJCCCA.

Court Service Units

The Department has 35 Court Service Units (CSUs) located throughout the state. The CSUs coordinate services for juveniles in the court system. They provide a variety of services including intake services, domestic relations, investigations, probation services, and counseling. During fiscal 1999, CSUs processed approximately 195,000 complaints involving juveniles. Annually, the CSUs supervise thousands of juveniles, most of whom are on probation or parole.

Juvenile Correctional Centers

The Department operates seven correctional centers for juveniles committed to state care. These facilities provide programs to address the treatment, disciplinary, medical, and recreational needs of the juveniles. The centers have operated above capacity since 1992 and the Department continues to address this issue. The Department has opened new centers, expanded current centers, and developed new programs as an alternative to secure incarceration, in an effort to reduce the overcrowding issue. Although the Department has increased the center capacity by over 30% since 1995, the average daily population has continued to increase at almost the same rate. As a result, there is still overcrowding at some facilities. The following table shows JCC capacity and average daily population for the last five years.

Fiscal Year	Total JCC Capacity	Average Daily Population (ADP)
1995	900	995
1996	972	1,162
1997	972	1,221
1998	1,177	1,207
1999	1,177	1,270

Source: Per Capita Report prepared by the Department
(does not include Culpeper facility)

The Department has increased the JCC capacity by renovating and expanding existing facilities as well as opening new facilities. The Department opened the Culpeper Juvenile Correctional Center in March 1999. This center will eventually house 225 juveniles, but the Department has not opened the entire facility because of a lack of operating funds. As of February 2000, the facility housed approximately 120 juveniles. Also in July 1999, the Department had to close a portion of the Hanover JCC for renovations. This has reduced the capacity at this center by almost 50 juveniles. The Department has planned several projects to upgrade and expand existing facilities in the next few years.

The Department's costs for operating the JCCs have increased by over \$20 million (67%) over the last three years. The increases are due to the additional costs to operate the new and expanded facilities, as well as staff increases at most centers to implement new programs. The following table shows the operating costs of the centers over the last two years, as well as the average cost per juvenile. The average cost per juvenile does not include educational costs incurred by the Department of Correctional Education, which was \$13,660 per juvenile in 1999.

	1998	1999
Operating costs of centers	\$45,388,254	\$51,074,752
Average daily population in centers	1,207	1,270
Average annual cost per JCC juvenile	\$37,604	\$40,216

Source: Per Capita Report prepared by the Department

1 – The operating costs of centers includes the Reception and Diagnostic Center and all JCC, except Culpeper.

1999 Data by Juvenile Correctional Center

	Capacity	1999 Average Daily Population	1999 Expenditures
<u>Barrett JCC</u> <ul style="list-style-type: none"> chemically dependent wards of all ages with less serious committing offenses 	98	126	\$ 5,932,986
<u>Beaumont JCC</u> <ul style="list-style-type: none"> houses the older more aggressive male offenders 	322	367	\$13,701,650
<u>Bon Air JCC</u> <ul style="list-style-type: none"> only co-ed correctional center houses females of all ages and offense levels houses 15-16 year old male offenders with less serious committing offenses 	280	320	\$10,675,597
<u>Culpeper JCC (opened in March 1999)</u> <ul style="list-style-type: none"> houses 16-21 year olds, most aggressive male offenders 	112	24	\$3,149,197*
<u>Hanover JCC</u> <ul style="list-style-type: none"> houses all ages of male offenders with moderate to serious committing offenses 	200	230	\$8,375,241
<u>Natural Bridge JCC</u> <ul style="list-style-type: none"> houses all ages of male offenders who are low security risks Also houses a limited number of serious offenders as a transition prior to release 	71	49	\$3,528,407
<u>Oak Ridge JCC</u> <ul style="list-style-type: none"> Houses male offenders with developmental disabilities and severe behavior disorders 	40	39	\$2,499,130

Source : 1999 Per Capita Report prepared by the Department. The chart does not include the Reception and Diagnostic Center which had operating expenses of \$6,361,741 in fiscal 1999.

* Culpeper JCC had only 3 months of operating expenditures during fiscal year 1999.

Contingent Liability

The Department is named as a party in various legal proceedings, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Department with respect to the various proceedings.