DEPARTMENT OF CORRECTIONS
AND VIRGINIA PAROLE BOARD

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2006, found:

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

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

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

- inadequate implementation of corrective action with respect to the prior audit finding "Strengthen Procedures over Agency Transaction Vouchers."

This report does not include Virginia Correctional Enterprises.

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AUDIT FINDINGS AND RECOMMENDATIONS

Strengthen Controls Over Capital Project Closing and Capitalization Processes

Corrections' policies and procedures over the capitalization and closing process for capital projects are inadequate and undocumented. In addition, there is a lack of communication and understanding of these policies and procedures between Architectural and Engineering Services (A/E Services), Financial Services, and the individual facilities. As a result, during our audit of the fiscal year 2006 Commonwealth's Comprehensive Annual Financial Report, we found over $14 million in capital outlay expenses in Construction in Progress that Corrections should have capitalized by the end of fiscal year 2006. In addition, we found over $18 million of assets that were capitalized both in Construction in Progress and as buildings, resulting in an overstatement of assets. Because Corrections manages capital projects centrally but each of the facility fixed asset accountants enter data into the Fixed Asset Accounting and Control System (FAACS), adequate procedures and communication between these entities is essential to ensure proper capitalization of the assets.

Corrections does not have documented policies and procedures over the capitalization and closing process for capital projects. However, based on our understanding of how the process is currently operating, we identified the following issues.

- A/E Services tracks capital outlay expenses in an Access database and reconciles the expenses to CARS monthly. A/E Services does not send the reconciliation to Financial Services. Instead A/E Services sends Financial Services a list of project expenses for the previous month. Financial Services has not used this information to ensure that all projects and their related costs are properly included in the Construction in Progress schedule.

- A/E Services relies on each capital Project Manager to determine and communicate when a capital project is complete. There is no guidance as to when a Project Manager should communicate this information to A/E Services, resulting in delays in capitalization.

- A/E does not have controls in place to monitor project expenses and to question when projects appear complete based on a lack of activity, resulting in inactive and completed projects not getting capitalized and depreciated timely. When A/E Services does notify Financial Services of a project closure, Financial Services does not always remove the project from the Construction in Progress schedule.

- Financial Services has only recently provided instructions to the facilities about when and how to capitalize assets resulting from capital projects, and the instructions are not complete or easily understood. In addition, Financial Services is providing the facilities incomplete capital project expenses. As a result, the facilities decide when and for how much to capitalize projects. This results in assets capitalized at the wrong time and amounts, sometimes duplicating assets in Construction in Progress and FAACS.

- The facilities do not consistently record information in FAACS that ties the capitalized asset to the capital project. Therefore, there is no audit trail from the capital project expenses to the capitalized asset.

- Financial Services relies on the facility fixed asset accountant to inform Financial Services when the facility records an asset in FAACS. If the facility does not inform Financial Services, then the asset is recorded in both Construction in Progress and as an asset in FAACS. Financial Services does not review or monitor FAACS for new assets to ensure timely removal of these assets from Construction in Progress.

Corrections should develop and document policies and procedure relating to the capital project closeout and capitalization processes. These policies and procedures should include controls to mitigate the risk of improperly recording assets in Construction in Progress and FAACS. The following are suggestions of controls that should be included in the documented policies and procedures.

- A/E Services should send Financial Services the monthly reconciliation between project expenses tracked by A/E Services and those recorded in CARS. Financial Services should use this information to ensure all project expense activity is properly included in the Construction in Progress schedule.

- Corrections should provide A/E Services with guidance on when to close out a project and notify the affected facility of the project closure.

- A/E Services should develop procedures to monitor project activity and inquire about projects that have little or no activity during a fiscal year to determine if the project is complete and ready for removal from Construction in Progress and to be shown as a completed asset. When notified of a completed project, Financial Services should remove the related expenses from the Construction in Progress schedule and notify the appropriate facility to capitalize the asset.

- Corrections should determine whether A/E or Financial Services is responsible for communicating capitalization information to the facilities. That unit should develop procedures to communicate capitalization information to the facilities and how the facility capitalizes the project asset. This should include a method to tie the capital project to the capitalized asset in FAACS.

- To reduce the risk of double counting assets, Financial Services should develop procedures to scan FAACS at least at year end to determine if there have been any new building assets added for which the capital expenses are still recorded in Construction in Progress.

A/E Services, Financial Services, and the facilities should work together to develop policies and procedures to ensure the proper and timely closing out of capital projects and the capitalization of the resulting assets.

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

Corrections does not have proper controls in place for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, and infrastructure). Corrections has not developed and implemented an agency specific useful life methodology. As a result, Corrections has a significant amount of fully depreciated assets which has steadily increased from $43.0 million in fiscal year 2002 to $58.9 million in fiscal year 2006, the majority of which is equipment.

GASB Statement No. 34, implemented in 2002, requires accumulated depreciation and depreciation expense in the Comprehensive Annual Financial Report and a periodic review of the value of assets still in use, especially if it appears the asset has no value. 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.

Corrections should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.

Strengthen Procedures over Agency Transaction Vouchers

As noted in our prior report, Corrections needs to improve procedures over agency transaction vouchers (ATVs). Corrections uses ATVs to make adjustments or correct errors for financial information recorded in CARS. In our previous audit, we reported that documentation supporting ATVs did not properly identify both the preparer and the approver of the transaction.

In June 2006, Corrections issued a new procedure requiring both the preparer and reviewer to sign ATVs. However, since the memorandum went out at the end of the fiscal year, ATVs prepared during fiscal year 2006 still lacked proper signatures. To determine if staff were following the new procedure, we extended our review into fiscal year 2007. Upon further review, three out of four ATVs selected for review in fiscal year 2007 did not have proper signatures. In addition, no standardized procedure appears to exist for all agencies under Corrections to ensure consistent processing of ATVs.

We recommend that Corrections implement a policy to prepare and process ATVs that all facilities could use. This policy should require the use of a standardized ATV form and require the inclusion of the preparer and approver's signatures and dates of their signing. More importantly, Corrections needs to ensure staff understand and follow the new policy.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

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

Corrections' primary source of funding is General Fund appropriations, which pay 99 percent of the operating expenses. Corrections also receives monies through federal grants and for housing out-of-state inmates. The following schedule compares selected operating statistics for the past six fiscal years.

	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
Average daily inmate population	31,670	32,374	31,645	30,207	30,373	30,104
Average annual cost per inmate	$20,979	$19,913	$20,142	$20,401	$21,248	$23,123
Total operating budget (in millions)	$ 793	$ 777	$ 768	$ 774	$ 814	$ 874

Sources: Management Information Summary Report and Population Summary prepared by Corrections and Chapter 2 Appropriation Act with the Virginia Parole Board's FATS transactions

The operating budget increases in 2001 reflect the opening of new facilities. The budget decreased in 2002 and 2003 as a result of budget reductions. Budget increases in 2004 through 2006 are mostly due to salary and fringe benefit increases.

Correction's largest operating expense is payroll and fringe benefit costs for over 11,000 individuals, most of whom work in the Division of Institutions. Although Corrections has an authorized employment level of 12,385 positions, the actual average number of employees during the year was only 11,433, resulting in approximately 1,000 vacant positions. Most of these vacancies are in the Division of Institutions and are due to difficulty in recruiting and retaining correctional officers to work in the correctional centers. The following table summarizes the positions and employment levels by division.

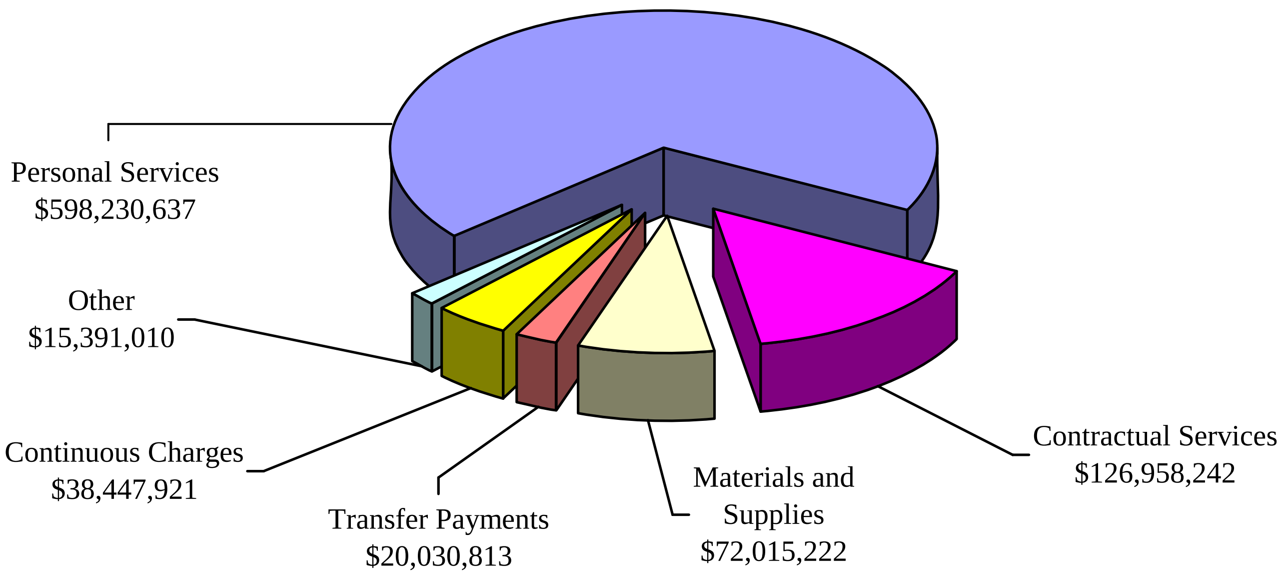
Summary of Authorized and Actual Positions for Fiscal Year 2006

	Authorized Employment Level	Actual Employment Level
Division of Institutions	10,676	9,828
Division of Community Corrections	1,416	1,303
Central Administration	293	302
Total	12,385	11,433

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

Corrections' second largest expense item is contractual services. Corrections has several large contracts for services at various facilities including food services, medical and prescription drug services, and phone services. The following chart shows total operating expenses by type for fiscal year 2006.

Operating Expense by Type



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

Inmate trust funds are funds held for inmates and totaled $7 million at June 30, 2006. The individual institutions also manage commissary funds that arise from the sale of personal products to inmates. Beginning in 2003, Corrections contracted with a private vendor to operate the commissaries, with the vendor paying Corrections a 6.5 percent commission on all sales. Each institution has the option of contracting their commissary operations or continuing to operate it themselves. All but three facilities chose to contract out their commissary operations.

In addition to the operating expenses discussed above, Corrections also has capital outlay and maintenance reserve expenses. In fiscal year 2006, Corrections spent $99 million for capital outlay of which $37.3 million was for the construction of the Green Rock Correctional Center, $30.1 million for the Pocahontas State Correctional Center, $12.4 million for the Deerfield Correctional Center expansion, and $7.8 million for the St. Brides Correctional Center. Maintenance reserve expenses totaled $3.4 million for fiscal year 2006.

The following table summarizes budget and actual operating activity for fiscal year 2006 by Corrections' divisions.

	Original Budget	Final Budget	Expenses
Division of Institutions	$673,769,426	$719,984,039	$719,728,649
Division of Community Corrections	91,000,558	99,530,230	98,104,055
Central Administration	40,710,015	53,903,984	52,443,079
Virginia Parole Board	648,359	807,454	798,061
Total	$806,128,358	$874,225,707	$871,073,844

Overall, Corrections' original budget increased by over $68 million. The majority of this increase represents the final inclusion of the annual amount of fringe benefits and prior year salary increases and the movement of the July 3rd payroll date to June 30th as authorized by the Governor. Most of this increase occurred in the Division of Institutions, since the increase related to personnel costs.

In accordance with state budget development policies, Corrections requests and receives funding for all of its authorized positions during the budget development process. The actual employment level is usually significantly less than the authorized positions, resulting in annual savings to the agency when these positions go unfilled. Most of these savings occur in the Division of Institutions, but Corrections transfers the funds to Central Administration to fund various expenses. The table above shows the transfer and therefore the increase in the Central Administration budget during the year. Corrections uses these savings to pay for other costs, which management says are under-funded such as increases in utility costs, information technology services, and training.

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

Division of Institutions

The Division of Institutions oversees the operations of 30 major institutions (including correction, reception, and classification centers), ten field units and six work centers. In fiscal year 2005, the Division of Institutions converted three field units to major correctional centers in recognition of their comparable size and security level of other major institutions. During fiscal year 2006, Corrections had an average daily population of 30,104 inmates.

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Administrative and support services	$259,100,076	$279,767,195	$279,671,895
Agribusiness	6,550,309	8,841,532	8,734,453
Reserve fund	395,052	-	-
Secure confinement	407,723,989	431,375,312	431,322,301
Total	$673,769,426	$719,984,039	$719,728,649

As identified in the preceding section, the majority of the Division of Institutions budget increase represents the final inclusion of the annual amount of fringe benefits and prior year salary increases and the movement of the July 3rd payroll date to June 30th as authorized by the Governor. The decrease in the 2006 final budget for the special revenue fund reflects the decrease in out-of-state inmate revenue. These funds have decreased significantly since 2002 since other states have not renewed their contracts, or Corrections, in an effort to free up prison capacity for Virginia inmates, has declined to extend the contracts. General funds have gradually replaced these special revenue funds.

Division of Community Corrections

The Division of Community Corrections provides supervision of offenders in the community through Probation and Parole Services. Staff supervised over 54,000 probationers and parolees and operates with 43 Probation and Parole Districts, 12 Day Reporting Centers, five Diversion Centers, and four Detention Centers. The Diversion and Detention Centers housed approximately 796 offenders during fiscal year 2006. In addition, the Community Corrections staff administers specialized sex offender containment models for sex offenders which incorporate the global position monitoring of such offenders.

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Administrative and support services	$ 7,504,573	$ 8,803,512	$ 8,799,056
Community based custody	8,898,990	5,593,810	5,593,809
Probation and re-entry services	60,643,468	70,022,347	69,577,861
Secure confinement	13,908,084	15,015,925	14,038,694
Agribusiness	45,443	94,636	94,635
Total	$ 91,000,558	$99,530,230	$ 98,104,055

The decrease from the original budget to the final budget in fiscal year 2006 in the Community Based Custody program was due to an appropriation transfer to Central Administration to help offset training and information technology costs and to realign appropriations to the most appropriate program. The Probation and Re-entry Services program increase was partly due to the transfer of $2.2 million for the movement of the July 3rd payroll date to June 30th as authorized by the Governor.

Central Administration

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

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Expenses
Administrative and support services	$ 35,339,109	$ 47,645,820	$ 46,185,445
Criminal justice training, education and standards	4,762,687	5,518,091	5,517,563
Vending facilities, snack bars, and cafeterias	608,219	740,073	740,071
Total	$ 40,710,015	$ 53,903,984	$ 52,443,079

The increase in the Central Administration budget reflects appropriation transfers from other divisions, primarily the Division of Institutions. Transfers of savings from position vacancies in the other divisions to Central Administration fund increases in utility costs, information technology services, training, repair and maintenance costs, and miscellaneous other goods and services. These savings also establish a contingency pool of resources to address unknown or unanticipated needs as well as prepaying fiscal year 2007 expenses for $2 million of Worker's Compensation.

Virginia Parole Board

Budget and Actual Expense Analysis by Program

	Original Budget	Final Budget	Actual Expenses	2007 Proposed Budget
Probation and re-entry services	$648,359	$807,454	$798,061	$692,363

Information Systems

Corrections is implementing an automated Offender Management Information System, VirginiaCORIS (VaCORIS), which will replace over ten antiquated legacy systems. CORIS is the software solution purchased from xwave New England.

VaCORIS is an initiative to modernize the way Corrections manages offender information. The system will provide real time offender data to authorized users, enhance the ability to share offender information with others, improve the quality of the offender data, and improve the reporting and decision making ability of the entire Department. The final product will result in a single, fully integrated system that will replace Corrections legacy offender-related applications.

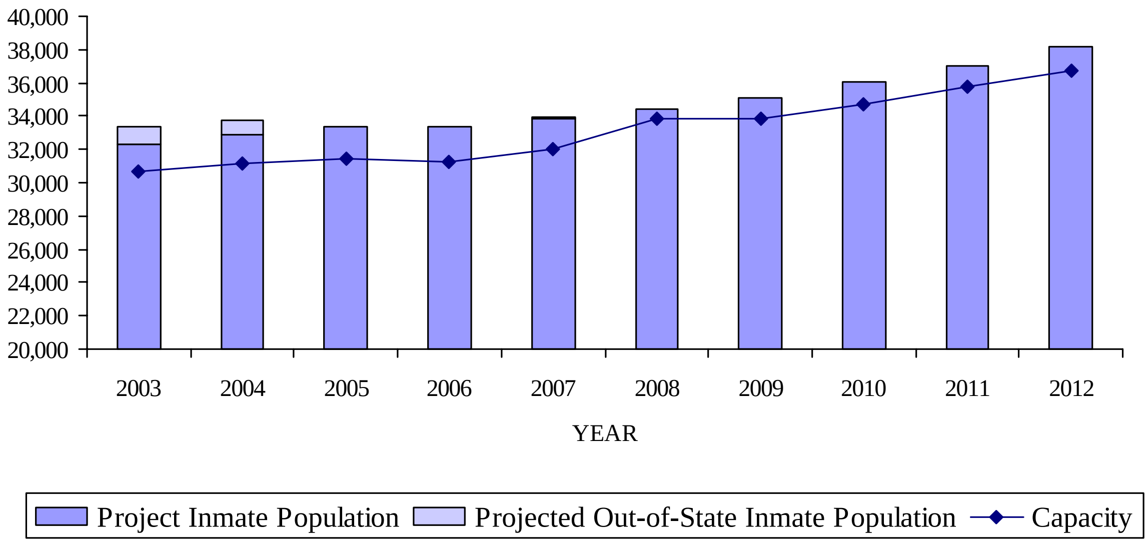
VaCORIS has three major projects: Offender Sentence Calculation successfully implemented in March 2006, Community Corrections (project 2), and Institutional Operations (project 3). VaCORIS is in the Planning, Execution and Control phase of Project 2, Community Corrections, where staff define the tasks and build the unique product or services of the system. Project 2 will have two releases. Release 1 should go live in November 2007 and Release 2 in April 2008. The project is currently on schedule.

Inmate Population and Prison Capacity

Corrections' facilities are now operating at or over capacity due to the growing population of Virginia inmates combined with stable or declining capacity in the prison system over the last few years. Although prison expansions in the late 1990's resulted in excess prison capacity, Virginia's increasing inmate population has consumed this excess capacity. As the Virginia inmate population has grown over the last few years, Corrections has been taking steps to reduce the number of out-of-state inmates. The out-of-state inmate population peaked in the early 2000s, when Virginia contracted with other states to house prisoners, and has been declining since then. Corrections currently has only 21 out-of-state inmates and forecasts this number to remain around 20 in the future.

The following graph of population and capacity forecasts through 2012 shows a capacity shortfall throughout the period which declines slightly by 2012. Information presented in the following graph represents the State responsible forecasted population as presented in Corrections' current and previous fiscal years master plans. Corrections' master plan incorporates the population projections issued each year by the Secretary of Public Safety and derives forecasted capacity shortfalls/surpluses for six years from those population projections. Information for fiscal years 2003 through 2006 represents projected population and capacity amounts from previous fiscal years master plans. Fiscal year 2007 and beyond represents data from Corrections' master plan as of October 2006.

Prison Population and Capacity Analysis



Source: Corrections' Master Plans for Fiscal Years 2003-2006

In analyzing the information in this graph, it is important to understand the assumptions made in the population projections and capacity amounts. Corrections uses the projected state responsible offender forecast provided by the Secretary of Public Safety and subtracts out inmates who are temporarily or permanently serving their prison sentences at local jails. This procedure helps forecast an accurate number of available beds (capacity) throughout the institutions.

Prison capacity decreased in 2003 when Corrections closed the Staunton Correctional Center in response to budget reductions. Prison capacity increases in the later years reflect construction of new prisons, increasing prison capacity by almost 5,000 by 2012. The 2004 General Assembly approved $68.6 million for a new medium security prison, Pocahontas State Correctional Center, in Tazewell County; $73.5 million for a new medium security prison, Green Rock Correctional Center, in Pittsylvania County; and $21.9 million for expansion of Deerfield Correctional Center. The General Assembly also approved $32.4 million for Phase 2 of the St. Brides replacement project. Corrections is using a public private partnership agreement to construct all of these projects. The 2004 General Assembly also approved planning for a new prison in the Mt. Rogers planning district and another in Charlotte County, and the information in the above graph includes these facilities.

Corrections is taking several steps in an effort to relieve the capacity shortfall. Corrections has all facilities double-bunking inmates to various extents. Several facilities have already reached their maximum capacity for double-bunking, and there are approximately 826 temporary beds statewide. Corrections has a long-term goal to discontinue the use of temporary beds, but must use the beds in order to relieve the critical inmate backlog in local jails. Corrections calculates the number of out of compliance inmates daily. Currently, there are approximately 2,500 out of compliance State responsible inmates in local jails. Inmates classified as out of compliance have remained in local jails past the 60 day period that Corrections has to retrieve the inmate from the local jail.

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

Prison Privatization

Corrections has one privately-operated medium security prison in Lawrenceville which opened in 1998. At that time, Corrections contracted with a private corporation, Corrections Corporation of America, for the construction and operation of a medium security prison with 1,536 general population beds, and 42 segregation beds. The Industrial Development Authority (IDA) of Brunswick County issued tax exempt bonds to finance the design and construction of the facility. The IDA owned the property and Corrections leased the facility, with an option to purchase when the IDA retired the bonds from March 1998 through August 2004. At that time, the Commonwealth issued bonds through the Virginia Public Building Authority to purchase the facility.

The original contract to operate the prison with Corrections Corporation of America was in effect through March 2003. Chapter 899 of the Acts of Assembly directed Corrections to compare the projected cost of operation by a private contractor with the projected cost of operation by the Corrections using its own employees and to prepare a report of its findings. Corrections reported that it should cost less to operate the facility with a private contractor than with state employees and issued a Request for Proposal.

The Geo Group, Inc. (formerly the Wackenhut Correctional Corporation) successfully responded to the proposal. The Geo Group contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The facility houses only male inmates and does not have a major medical facility. The contract established a per diem rate of $35.67 for the first 1,425 inmates and $6.03 for each inmate above 1,425 during the first two years of the contract. The contract adjusts the per diem rates on March 23 of each of the subsequent years based on the Consumer Products Index for wage earners. The rate adjustment in March 2006 resulted in per diem amounts of $38.08 and $6.44, respectively.

The Lawrenceville prison earned American Corrections Association (ACA) accreditation during November 1999. ACA is a national private non-profit organization that establishes standards for correctional institutions. Most of Corrections' newer facilities have become ACA accredited, although some of the older prisons cannot because they cannot meet all of the accreditation standards. Corrections also has its own internal standards for its facilities. The GEO Group must maintain ACA accreditation and meet Corrections' internal standards. 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 January 2007.

Comparison of Major Correctional Center Costs

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

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

The tables on the following pages show fiscal year 2006 expenses by institution. In addition, they also reflect a daily and annual cost calculation per inmate based on the average daily population. The expenses shown in the tables do not include maintenance reserve, regional office administration, central office administration, or debt service costs. The tables show only the expenses of the major correctional centers and do not include any costs or inmates related to field units, reception classification centers, or work centers. Expenses in the tables come from the CARS, and are reported in the following categories for each major correctional center:

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

As shown in the tables, the average daily expense per inmate ranges from $48 to $190. On average, the daily expense per inmate is $66.50 across all facilities which results in an annual average expense per inmate of approximately $24,300. Security services are the largest expense for the major correctional centers, followed by medical and clinical services expense. Below is a discussion of each of these areas in more detail.

<u>Security Services</u>

There is an average of 8,631 employees who work in the major correctional centers, most of whom provide security services. These expenses are primarily payroll and fringe benefit costs for these employees.

<u>Medical and Clinical Services</u>

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

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

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

Corrections acquires local services using a contract with Anthem, which allows Corrections to access the contractor’s provider network. Anthem, in addition to providing access to its network, also acts as a plan administrator, auditing charges, reviewing care, and providing its network discount for an administrative fee.

In 2006, inmate medical expenses amounted to approximately $109.5 million which is broken down in the following table. These costs amount to an average annual costs of over $3,637 per inmate.

Summary of Medical Expenses for Fiscal year 2006

Medical expenses paid by facilities	$ 74,560,100
Medical expenses paid centrally (for facilities)	28,144,850
Medical expenses paid centrally (mostly for the Office of Health Services)	6,784,382
Total medical expenses	$ 109,489,332

Source: Commonwealth Accounting and Reporting System

Inmates must pay a co-payment to receive medical services and Corrections withdraws the amount from the inmate’s trust fund account. Corrections uses the inmate co-payments to help fund their telemedicine program. Corrections’ telemedicine program operates at 16 facilities and allows inmates to receive medical care from remote locations via a telecommunications link. The technology allows the doctor or provider to observe the patient while the inmate remains at the facility, saving on transportation costs. In fiscal year 2006, Corrections collected inmate co-payments of $499,730 to help offset the costs of the telemedicine program.

	Red Onion Security Level 6	Wallens Ridge Security Level 5	Sussex I Security Level 5	Sussex II Security Level 4
Average daily population:	795	1,197	1,191	1,256
Average employment level:	399	407	344	354
Expenses:				
Administration	$ 1,415,663	$ 1,999,347	$ 1,898,771	$ 1,806,098
Agribusiness	-	-	-	-
Education	483,854	446,245	606,235	737,668
Food and dietary services	1,105,608	1,293,773	1,602,885	1,504,850
Laundry	36,997	143,136	138,449	80,259
Medical and clinical services	1,572,505	2,419,624	4,156,923	3,629,144
Physical plant	2,534,984	2,691,746	4,640,406	2,086,694
Power plant	-	-	496,554	1,297,993
Recreation	22,873	82,293	-	44,293
Rehabilitation and treatment services	1,002,677	881,071	736,169	500,711
Security	15,442,609	16,064,207	15,881,211	15,167,957
Wastewater treatment	-	-	-	-
Total expenses	$ 23,617,770	$ 26,021,442	$ 30,157,603	$ 26,855,667
Average annual expenses per inmate	$ 29,708	$ 21,739	$ 25,321	$ 21,382
Average daily expenses per inmate	$ 81.39	$ 59.56	$ 69.37	$ 58.58

	Keen Mountain Security Level 4	Nottoway Security Level 4	Augusta Security Level 3	Brunswick Security Level 3
Average daily population:	899	1,200	1,118	699
Average employment level:	287	465	392	379
Expenses:				
Administration	$ 1,316,266	$ 1,584,563	$ 1,708,446	$ 1,357,868
Agribusiness	-	308,087	328,167	276,875
Education	496,162	609,678	599,207	679,393
Food and dietary services	1,082,537	1,353,886	1,371,971	991,064
Laundry	57,214	185,520	99,617	16,979
Medical and clinical services	1,654,821	2,659,990	2,810,862	3,072,006
Physical plant	1,666,973	2,019,071	2,170,787	1,762,197
Power plant	788,390	405,382	514,541	366,450
Recreation	37,192	179,689	57,498	47,230
Rehabilitation and treatment services	691,646	700,635	928,701	932,497
Security	10,995,136	17,258,068	15,422,827	13,447,242
Wastewater treatment	-	356,632	-	-
Total expenses	$ 18,786,337	$ 27,621,201	$ 26,012,624	$ 22,949,801
Average annual expenses per inmate	$ 20,897	$ 23,018	$ 23,267	$ 32,832
Average daily expenses per inmate	$ 57.25	$ 63.06	$ 63.75	$ 89.95

	Buckingham Security Level 3	Fluvanna Security Level 3	Greensville Security Level 3	Mecklenburg Security Level 3
Average daily population:	982	1,174	3,062	726
Average employment level:	353	338	828	395
Expenses:				
Administration	$ 1,507,661	$ 1,927,049	$ 3,893,041	$ 1,577,535
Agribusiness	190,763	-	793,196	-
Education	595,569	1,349,901	1,804,034	229,849
Food and dietary services	1,121,906	1,131,699	3,891,504	1,155,518
Laundry	29,195	179,844	731,943	87,343
Medical and clinical services	2,340,995	8,502,070	16,538,369	1,771,795
Physical plant	1,518,512	1,814,183	5,292,442	1,801,342
Power plant	465,419	-	1,472,864	693,587
Recreation	56,845	36,561	156,708	60,604
Rehabilitation and treatment services	896,345	966,414	2,000,640	683,361
Security	14,539,201	14,752,012	33,361,253	12,060,497
Wastewater treatment	386,155	374,611	-	-
Total expenses	$ 23,648,566	$ 31,034,344	$ 69,935,994	$ 20,121,431
Average annual expenses per inmate	$ 24,082	$ 26,435	$ 22,840	$ 27,715
Average daily expenses per inmate	$ 65.98	$ 72.42	$ 62.58	$ 75.93

	Powhatan Security Level 3	Southampton Security Level 3	Bland Security Level 2	Coffeewood Security Level 2
Average daily population:	816	650	625	1,195
Average employment level:	342	328	301	252
Expenses:				
Administration	$ 1,960,149	$ 1,418,195	$ 1,362,376	$ 1,861,076
Agribusiness	-	1,600,986	1,082,231	217,547
Education	713,135	1,029,088	759,980	747,079
Food and dietary services	1,247,623	986,884	1,123,938	1,335,613
Laundry	33,150	50,582	87,263	135,782
Medical and clinical services	6,510,654	1,636,564	2,076,264	3,582,397
Physical plant	2,298,446	1,634,963	1,166,458	1,622,766
Power plant	1,337,854	1,108,997	525,511	-
Recreation	41,421	60,471	57,080	45,054
Rehabilitation and treatment services	831,048	526,689	710,494	900,989
Security	13,569,829	8,141,177	10,754,338	9,921,248
Wastewater treatment	-	288,130	439,727	361,574
Total expenses	$ 28,543,309	$ 18,482,726	$ 20,145,660	$ 20,731,125
Average annual expenses per inmate	$ 34,980	$ 28,435	$ 32,233	$ 17,348
Average daily expenses per inmate	$ 95.83	$ 77.90	$ 88.31	$ 47.53

	Deep Meadow Security Level 2	Deerfield Security Level 2	Dillwyn Security Level 2	Haynesville Security Level 2
Average daily population:	994	465	1,088	1,143
Average employment level:	297	189	262	357
Expenses:				
Administration	$ 1,994,607	$ 1,198,782	$ 1,399,992	$ 1,612,902
Agribusiness	-	-	-	-
Education	474,904	452,585	526,183	758,301
Food and dietary services	1,035,748	796,423	1,112,327	1,328,264
Laundry	108,380	208	135,756	61,191
Medical and clinical services	3,436,240	3,918,398	3,044,852	3,203,053
Physical plant	1,390,521	877,290	1,569,884	1,383,409
Power plant	-	-	-	-
Recreation	71,513	66,739	40,974	46,313
Rehabilitation and treatment services	373,336	414,698	865,045	907,933
Security	12,446,709	7,182,437	10,341,902	10,427,629
Wastewater treatment	-	-	-	307,548
Total expenses	$ 21,331,958	$ 14,907,560	$ 19,036,915	$ 20,036,543
Average annual expenses per inmate	$ 21,461	$ 32,059	$ 17,497	$ 17,530
Average daily expenses per inmate	$ 58.80	$ 87.83	$ 47.94	$ 48.03

	Indian Creek Security Level 2	James River Security Level 2	Lunenburg Security Level 2	St. Brides Security Level 2
Average daily population:	947	461	1,185	412
Average employment level:	238	261	256	176
Expenses:				
Administration	$ 1,356,190	$ 1,110,149	$ 1,564,010	$ 812,210
Agribusiness	-	2,733,705	-	-
Education	668,310	520,154	835,892	1,286,862
Food and dietary services	1,131,817	702,320	1,244,429	603,887
Laundry	88,027	51,068	107,131	30,197
Medical and clinical services	2,337,866	1,045,469	3,861,033	718,839
Physical plant	1,780,916	1,102,647	2,627,806	1,464,810
Power plant	-	568,094	-	142,951
Recreation	42,068	57,331	59,959	38,215
Rehabilitation and treatment services	2,539,102	212,281	865,576	686,185
Security	9,151,817	6,048,364	10,169,786	6,583,545
Wastewater treatment	-	792,266	-	425,070
Total expenses	$ 19,096,113	$ 14,943,848	$ 21,335,622	$ 12,792,771
Average annual expenses per inmate	$ 20,165	$ 32,416	$ 18,005	$ 31,050
Average daily expenses per inmate	$ 55.25	$ 88.81	$ 49.33	$ 85.07

	Virginia Correctional Center for Women Security Level 2	Marion Security Level 2	All Major Correctional Centers
Average daily population:	564	213	25,057
Average employment level:	203	228	8,631
Expenses:			
Administration	$ 1,685,306	$ 963,320	$ 42,291,573
Agribusiness	-	50,269	7,581,824
Education	922,378	237,060	18,569,705
Food and dietary services	717,259	374,617	31,348,350
Laundry	27,396	43,962	2,746,590
Medical and clinical services	2,735,980	3,012,497	92,249,213
Physical plant	1,180,784	716,548	50,816,586
Power plant	580,939	-	10,765,526
Recreation	50,511	196,483	1,655,918
Rehabilitation and treatment services	805,157	1,152,707	22,712,106
Security	6,572,614	8,057,773	323,761,387
Wastewater treatment	-	-	3,731,713
Total expenses	$ 15,278,324	$ 14,805,236	$ 608,030,491
Average annual expenses per inmate	$ 27,089	$ 69,508	$ 24,274
Average daily expenses per inmate	$ 74.22	$ 190.43	$ 66.50

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 4, 2007

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

The Honorable Thomas K. Norment, 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 Corrections** and **Virginia Parole Board** (herein collectively identified as the Department) for the year ended June 30, 2006 in support of the Comprehensive Annual Financial Report for the Commonwealth of Virginia. Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate audit report we will issue. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT OBJECTIVE

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 for the year ended June 30, 2006. In support of this objective, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, reviewed the adequacy of the Department's internal control, tested for compliance with applicable laws and regulations, and reviewed corrective actions of the audit findings from the prior year report.

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, including controls for administering compliance with applicable laws and regulations, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

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

We performed audit tests we deemed necessary 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. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and Department's "Annual Management Information Summaries Report."

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

The Department has taken corrective action with respect to audit findings reported in the prior report that are not repeated in this letter. The prior year audit finding "Address Effect of Vacancy Savings on Budget" is not repeated here as this issue will be addressed at a statewide level.

We discussed this letter with management on May 1, 2007. 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

LCW:whb

COMMONWEALTH of VIRGINIA

Department of Corrections

GENE M. JOHNSON
DIRECTOR

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

April 30, 2007

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

RE: APA Audit Report on the Department of Corrections and Virginia Parole Board for Fiscal Year Ended June 30, 2006

Dear Mr. Kucharski:

Enclosed is the Department of Corrections' response to the Auditor of Public Accounts (APA) report on the examination of the Department and the Virginia Parole Board for the fiscal year ended June 30, 2006. We appreciate the opportunity to respond to the report findings prior to formal publication of the report.

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

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. David A. Von Moll
Mr. Theodore C. Link

APA AUDIT FOR FISCAL YEAR 2006
INTERNAL CONTROL AND COMPLIANCE FINDINGS
RECOMMENDATIONS AND DOC RESPONSES

APA FINDING #1 – Strengthen Controls Over Capital Project Closing And Capitalization Processes

Corrections does not have documented policies and procedures over the capitalization and closing process for capital projects. Corrections should develop and document policies and procedures relating to the capital project closeout and capitalization processes. These policies and procedures should include controls to mitigate the risk of improperly recording assets in Construction in Progress and FAACS. A/E Services, Financial Services, and the facilities should work together to develop policies and procedures to ensure the proper and timely closing out of capital projects and the capitalization of the resulting assets.

DOC RESPONSE

Management recognizes that its past processes and practices employed in the administration and monitoring of capital projects are no longer adequate due to the recently elevated level of importance of depreciation expense to the Commonwealth Annual Financial Report (CAFR). Changes to Governmental Accounting Standards require a more sophisticated approach to managing the closing of projects and the subsequent capitalization and depreciation of assets than that which has been acceptable in the past.

A planned revision to the DOC Departmental Procedures relating to Fixed Assets will provide guidance relating to the auditor's recommendations for FY'08.

ACTION PLAN **- Management will clearly define the responsibilities of A/E Services, Financial Services, and field facilities in the closing out of capital projects and the capitalization of the resulting assets.**

RESPONSIBLE POSITION **- DOC Controller**

DUE DATE **- 4th Quarter of FY'07**

APA FINDING #2 - Strengthen Controls Over Capital Asset Useful Life Methodologies

Corrections does not have proper controls in place for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, and infrastructure). Corrections has not developed and implemented an agency specific useful life methodology. GASB Statement No. 34, implemented in 2002, requires accumulated depreciation and depreciation expense in the Comprehensive Annual Financial

Report and a periodic review of the value of assets still in use, especially if it appears the asset has no value. 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.

Corrections should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.

DOC RESPONSE

Management has issued considerable written guidance to all FAACS responsible personnel over the most recent two fiscal years relating to the assignment of asset useful lives, as evidenced by the documentation provided to the auditors. This Finding, however, focuses on an interpretation of the Department of Accounts' requirement that state agencies should consider "actual use" patterns of assets for different types or classes of assets and take into account the actual length of time the agency has used different assets over time. This approach is supported by the assumption that governmental organizations often use fixed assets longer than private sector businesses.

The DOC does require that FAACS responsible personnel review the useful lives of assets that are nearing *full* amortization for the purpose of placing a value upon those assets that are anticipated to extend beyond the original useful life assigned to the asset upon acquisition. The auditors, however, are recommending that the DOC perform an *earlier* assessment of assets so that the depreciation expense and the book value associated with significant assets will be more current as reflected in the Commonwealth Annual Financial Report (CAFR).

A planned revision to the DOC Departmental Procedures relating to Fixed Assets will provide guidance relating to the auditor's recommendations for FY'08.

***ACTION PLAN* - Management will develop an asset useful life methodology and require implementation by all DOC units.**

***RESPONSIBLE POSITION* - DOC Controller**

***DUE DATE* - 4th Quarter of FY'07**

APA FINDING #3 – Strengthen Procedures Over Agency Transaction Vouchers

Corrections uses agency transaction vouchers (ATV's) to make adjustments or correct errors for financial information recorded in CARS. Corrections needs to improve procedures over ATV'S.

We recommend that Corrections implement a policy to prepare and process ATV's that all facilities could use. This policy should require the use of a standardized ATV form and require the inclusion of the preparer's and the approver's signatures and dates. Corrections also needs to ensure staff understands and follows the new policy.

DOC RESPONSE

Management concurs with the auditors' recommendations and has taken the following action.

ACTION TAKEN - **Management has directed DOC units to use the "standardized ATV form" which is included on the Department's electronic *Virtual Library* (DOCnet). Moreover, all DOC units have been alerted to the need for signatures of both the initiator and the approver of ATV forms.**

RESPONSIBLE POSITION - **DOC Controller**

DATE COMPLETED - **April 2007**

DEPARTMENT OF CORRECTIONS

Gene Johnson, Director

John Jabe, Deputy Director

N.H. “Cookie” Scott, Deputy Director

James R. Camache, Deputy Director

H. Paul Broughton, Deputy Director

Ted Link, Controller

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