



**DEPARTMENT OF CORRECTIONS
THE VIRGINIA PAROLE BOARD
VIRGINIA CORRECTIONAL ENTERPRISES**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2012**

AUDIT SUMMARY

Our audit of the Department of Corrections, the Virginia Parole Board, and Virginia Correctional Enterprises, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- instances involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
DEPARTMENT OF CORRECTIONS	
AUDIT FINDINGS AND RECOMMENDATIONS	1-3
AGENCY HIGHLIGHTS	3-10
Corrections Funding	3-5
Budget Development and Execution Issues	5-7
Virginia Parole Board	7-8
Inmate Population Forecasts and Capacity	8-9
Prison Closings and Openings	9-10
Prison Privatization	10
VIRGINIA CORRECTIONAL ENTERPRISES	
AGENCY HIGHLIGHTS	11-12
Financial Summary	11-12
Sales Information by Industry	12
INDEPENDENT AUDITOR'S REPORT	13-15
AGENCY RESPONSE	16
AGENCY OFFICIALS	17

DEPARTMENT OF CORRECTIONS

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Information Security Program

The Department of Corrections (Corrections) does not have updated IT risk assessments for some mission critical business functions and is missing certain required documentation in its information security program. While the lack of this documentation does not present an immediate threat, these vulnerabilities weaken Corrections' security posture and compliance with the Commonwealth's security standard, SEC 501. Specifically, Corrections' information security program is missing the following components:

- Risk assessments for four of five defined mission critical business functions, which are essential inputs into contingency and disaster recovery planning.
- Periodic vulnerability scans on mission critical applications and supporting databases.
- Interoperability agreements for ten of 34 system interfaces between Corrections and external entities which manage sensitive data.

SEC 501-06 requires agencies to develop and implement policies and procedures for the controls listed above to ensure that proper security mechanisms protect mission critical and sensitive information. Corrections should develop and implement controls that address the weaknesses noted above. Further, management should update the appropriate policies and procedures to reflect these controls, document expectations, and provide the necessary training.

Improve Internal Controls over Voyager Fuel Cards

Corrections does not have adequate internal controls over Voyager Fuel Cards resulting in noncompliance with the DOC Operating Procedure 323.1 Vehicle Acquisition, Operations, and Maintenance (Vehicle Procedures) and Office of Fleet Management Services (OFMS) Policies and Procedures Manual. Corrections' Vehicle Procedures include guidance over the physical security of the cards and performing monthly reviews of the billing report. However, the Vehicle Procedures do not provide guidance on how to access the Mansfield Voyager Card online data to perform the monthly billing reviews. In addition, Corrections does not adequately communicate its Vehicle Procedures to divisions and facilities within the agency and does not provide any central oversight or monitoring to ensure compliance.

The OFMS Policy requires that agencies assign Fuel Card Custodians to assume physical security over the Voyager Fuel Cards. All facilities and divisions reviewed had a Fuel Card Custodian with adequate physical security established over the cards.

The OFMS Policy requires that agencies assign Fuel Card Account Custodians to assume responsibility for reviewing card activity to ensure appropriate use. The Vehicle Procedures require

the facilities and divisions to review, at least monthly, the usage of each Voyager card assigned to their unit for appropriate card usage. The facilities and divisions should maintain documentation of the monthly reviews for three years or until audited. Five of six facilities and divisions reviewed do not review Mansfield Voyager Card reports monthly. None of the facilities and divisions maintained their documentation for the designated timeframe, if they even performed a review.

Often, the individual responsible for the Voyager cards was unaware of the Vehicle Procedures and their job responsibilities. In two cases, the facility's Voyager card custodian was under the assumption that Correction's General Service Unit was responsible for monitoring and reviewing monthly bills. However, the General Services Unit is only responsible for specific Central Office divisions. Each facility and division is responsible for following the Vehicle Procedures. Therefore, no one reviewed the monthly bills for reasonableness for these divisions over the past several years.

OFMS policies state that Voyager cards should not be used to purchase mid-grade or premium fuel unless regular is not available or the vehicle manufacturer requires it. In addition, Voyager cards should not be used to purchase food and beverages or non-vehicle related goods and services. We found \$97,337 in potentially inappropriate purchases across all Voyager cards during fiscal year 2012 for items such as food, premium and mid-grade fuel, and sales tax. At the six facilities reviewed, Corrections could not provide explanations for the majority of these purchases because the facilities and divisions are not reviewing purchases made each month. One facility was not aware that they should only purchase regular gasoline.

One facility does not require employees to use Voyager cards to purchase fuel when using an Enterprise rental vehicle. The facility allows employees to pay for the fuel and obtain reimbursement. By not requiring the use of a Voyager card, employees are paying and being reimbursed for taxes on fuel purchases. State policy allows this only if the agency works with the Department of Taxation to obtain reimbursement for any tax paid on fuel. Since the facility is not requesting reimbursement from Taxation, it is unnecessarily paying taxes on fuel purchased in this manner.

Proper communication of policies and procedures with Correction's facilities and divisions that handle Voyager Fuel Cards helps to ensure the proper monitoring of the cards and that individuals handling the cards understand their duties and responsibilities. Without individuals at each facility and division performing appropriate job responsibilities surrounding Voyager Fuel Cards, the risk of inappropriate purchases and fraudulent activity increases.

Corrections should assign an individual that will have oversight of all Voyager card activity, including all facilities and divisions. Corrections should ensure that the individual has the authority, not just the responsibility, to provide direction and oversight over all Voyager Fuel Cards at the central office, divisions, and facilities. Corrections should use this position to strengthen controls surrounding the usage and review of Voyager Fuel Card activity. Finally, Corrections should update its Vehicle Procedures to specifically state what each facility and division's responsibilities are surrounding Voyager Fuel Cards and how to access the Mansfield website to monitor and review monthly expenses.

Properly Identify and Remove System Access for Terminated Employees

Corrections does not have adequate procedures to ensure removal of employee system access upon termination of employment. We found one individual with CARS access for almost 6 months after termination. We found another individual with CARS access for over 18 months after termination, which was still active at the time of this audit. Corrections does not have adequate procedures to identify all terminated employees. The Separated Employee Listing used by General Accounting to identify terminated employees does not include individuals that have transferred to other state agencies. Therefore, Corrections does not identify employees who have transferred to another state agency for consideration in removing system access for CARS, as well as VA CORIS and eVA. Corrections should develop and implement procedures to identify all individuals terminating employment with the agency and ensure removal of their system access.

AGENCY HIGHLIGHTS

Corrections operates Virginia's correctional facilities for adult offenders and directs the work of all probation and parole officers. Correction's mission is to enhance public safety by providing effective programs, re-entry services, and supervision of 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 97 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.

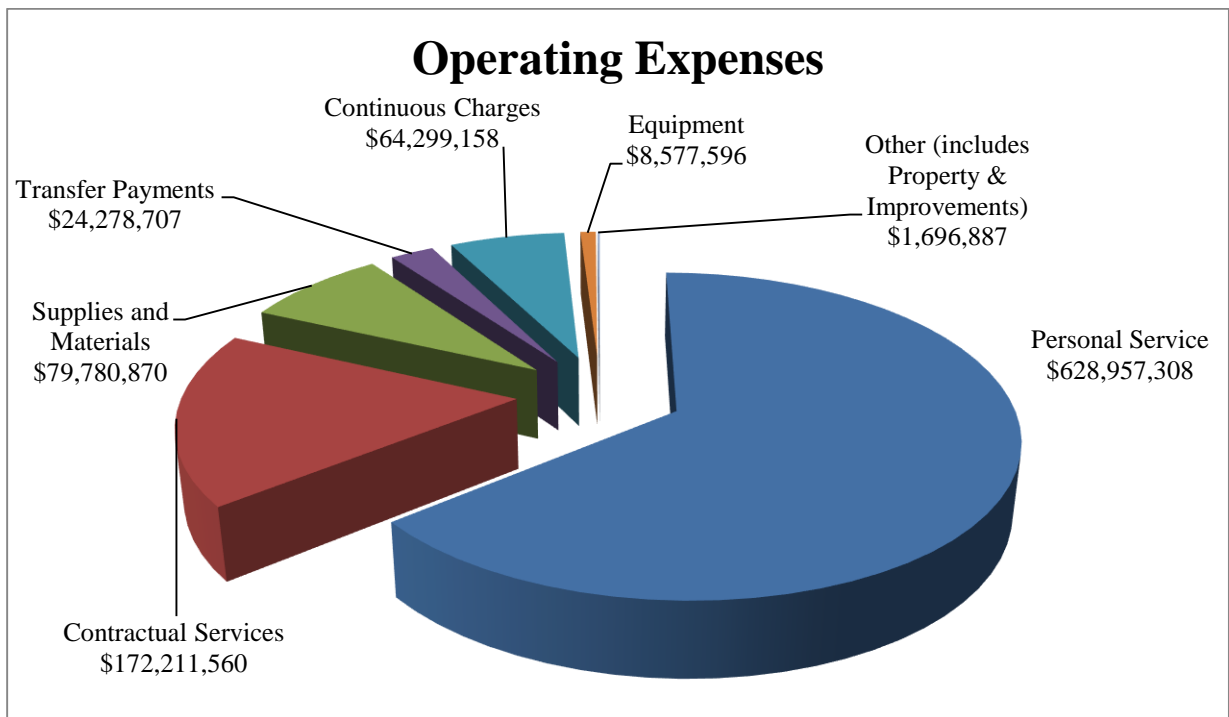
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Average annual cost per inmate	\$22,830	\$24,332	\$24,665	\$24,024	\$24,380	\$25,498
Total operating budget (in millions)	<u>\$ 895</u>	<u>\$ 1,001</u>	<u>\$ 1,012</u>	<u>\$ 939</u>	<u>\$ 971</u>	<u>\$ 983</u>

Sources: *Corrections' Management Information Summary Report and Chapter 890 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.*

Corrections' largest expense item is personal services, which includes payroll and fringe benefit costs for the agency's employees. In fiscal year 2012, personal service expenses comprised 64 percent of total agency expenses. Corrections' authorized employment level for fiscal year 2012 was 12,463, which was a slight increase from the agency's fiscal year 2011 level. This increase is

due to increases in medical positions, increases in positions under the new Re-entry Initiative, and increases in positions to absorb workforce development positions from the dissolved Department of Correctional Education. Corrections' average employment level during fiscal year 2012 decreased to 11,477, which mainly resulted from the closure of James River Correctional Center in March 2011 and the closure of Mecklenburg Correctional Center in May 2012.

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 2012.



Source: The Commonwealth's Accounting 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 2012, Corrections spent approximately \$18.8 million for capital outlay and \$3.2 million for maintenance reserve expenses. The following lists some of the largest capital outlay projects.

- \$1.1 million for construction of the Mount Rogers medium security correctional facility
- \$2.6 million for roof replacements at multiple institutions
- \$1.0 million to build out and upgrade water system at Chesterfield Women's Diversion Center
- \$3.7 million to replace door controls panels at Greenville Correctional Center and Keen Mountain Correctional Center
- \$3.4 million for security enhancements at Greenville Correctional Center

- \$1.4 million to replace tunnel washers at Virginia Correctional Center for Women and Sussex II Prison.
- \$1.7 million to install solar panels at St. Brides Correctional Center

Budget Development and Execution Issues

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 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. During fiscal year 2012, Corrections continued to fund utility rate increases, gasoline rate increases, IT increases and leases with funds initially budgeted for employee-related expenses. Corrections funds these expenses annually with vacancy savings.

The following table summarizes Corrections' budget and actual operating activity by program for fiscal year 2012.

Budget and Actual Expense Analysis by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Operation of secure correctional facilities	\$ 827,666,927	\$ 842,444,901	\$ 841,342,814
Supervision of offenders and re-entry services	82,343,775	78,271,183	77,758,439
Administrative and support services	81,288,388	97,635,496	96,693,280
Operation of state residential community correctional facilities	<u>17,140,956</u>	<u>17,319,076</u>	<u>17,160,409</u>
Total	<u>\$1,008,440,046</u>	<u>\$1,035,670,656</u>	<u>\$1,032,954,942</u>

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

Information on each of Corrections' program areas and the Parole Board is 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. This Program also includes Correctional Enterprises, which we discuss in the "Virginia Correctional Enterprises" section of this report.

During fiscal year 2012, this program's final budget increased by approximately \$14.7 million from the original budget. This increase resulted mainly from increased cost of off-site medical care including outpatient hospital care.

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.

During fiscal year 2012, this program's final budget decreased by approximately \$4.1 million from the original budget. This reduction was a result of transfers from this program to Administrative and Support Services to align funding to reflect the current operating budget.

The Virginia Community Re-Entry Initiative (VCRI) began in fiscal year 2011 and is a community-based re-entry approach. Localities throughout the Commonwealth are voluntarily implementing the program.

VCRI goals are to increase public safety through reduced recidivism, maximize opportunities for former offenders returning to the community, and support family and community reintegration for persons previously incarcerated. It is not a new program nor does it impose any requirements on institutions or local government agencies and their community partners. It is a collaborative re-entry approach for adults and juveniles that maximizes effective use of existing resources.

Participating localities establish a local re-entry and community collaboration council. Directors of local departments of social services and/or of a community human services organization and a public safety partner volunteer to serve as conveners and bring together representatives of public and private agencies, law enforcement, correctional agencies, the courts, businesses, community-based service providers, victims of crime, former offenders, families of offenders, and faith-based organizations to form a local re-entry council. The VCRI collaboration approach focuses on four primary principles; pre-release planning, interagency coordination, integrated service delivery, and a system of family and community support, including positive links to the community.

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 2012, this program's final budget increased by approximately \$16.3 million over the original budget. This increase is due largely in part to the following transfers:

- \$10 million appropriation transfer from other programs in the agency to realign funding to reflect the current operating budget.
- \$3.8 million transfer from Central Appropriations for Virginia Information Technologies Agency rate impacts.
- \$9.2 million transfer from Central Appropriations for salary, benefits, and other amounts.
- \$4.8 million transfer to other programs in the agency to realign appropriations from Central Appropriation allocations to offset the cost of the carry forward of five periods of retirement related expenses from fiscal year 2011.

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 2012, this program's final budget increased by \$178,120 from the original budget. This increase related to the transfer from Supervision of Offenders and Re-entry Services to align appropriations with projected year-end expenses.

Virginia Parole Board

Budget and Actual Expense Analysis by Program for Fiscal Year 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Probation and parole determination	\$675,940	\$821,822	\$713,946

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, safety and security of staff, 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, maximization of technology use, 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 2012, there were no significant changes between the original and final budgets for this program.

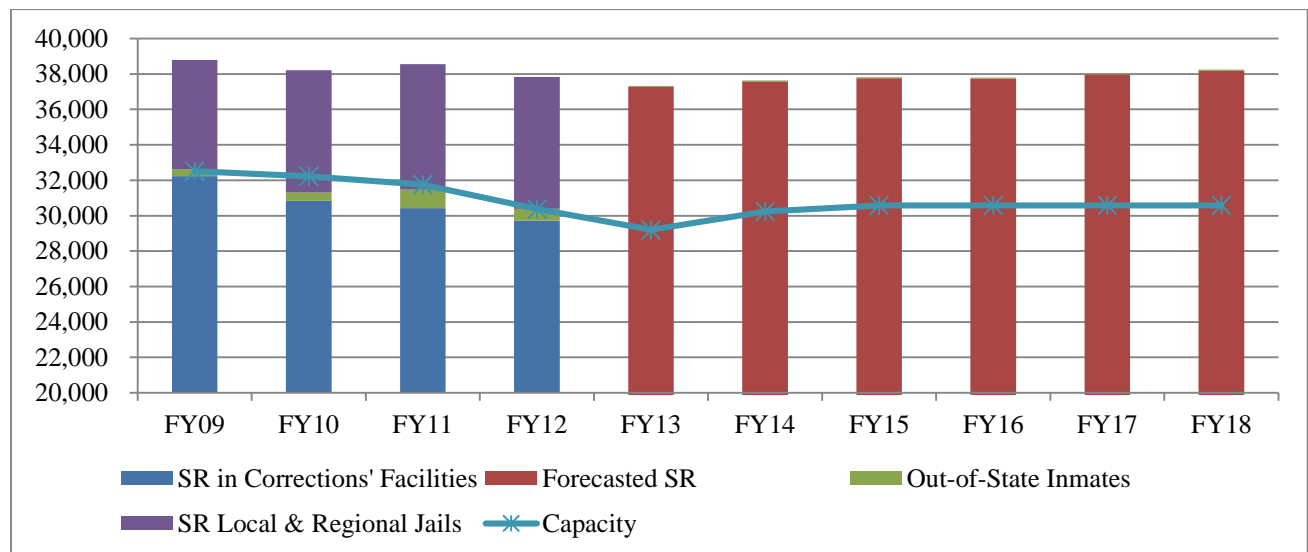
Inmate Population Forecasts and Capacity

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 fiscal year 2018.

State Responsible Inmate Population and Prison Capacity Analysis

As of December 2012



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, as well as backing up State responsible inmates in local and regional jails, to maximize their capacity.

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 June 30, 2012, there were approximately 4,746 out-of-compliance State responsible inmates in local and regional jails. This figure will grow to approximately 5,603 out of compliance beds at June 30, 2013. 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
- Inmates for whom 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
- State responsible inmates who are under a jail contract, work release, or re-entry stage of their sentence

In fiscal year 2011, Corrections housed inmates from Hawaii, the Virgin Islands, and Pennsylvania, which generated revenue in excess of \$23.8 million. However, on September 27, 2011, Corrections received notice of termination to return all Pennsylvania inmates, which made up 99 percent of the out of state inmates. The last of the 1,003 Pennsylvania inmates returned to Pennsylvania on March 20, 2012. Corrections will continue to house approximate 56 inmates from Hawaii and the Virginia Islands and also continue to solicit other out of state inmates. However, there are no negotiations with any entities at this time. Because of the loss of these inmates and the related revenue, Corrections had to close Mecklenburg Correctional Center in fiscal year 2012.

Prison Closings and Openings

Corrections has closed or mothballed 11 correctional facilities since November 2008. Corrections has mothballed eight of these facilities to ensure they are properly maintained and can be reopened or repurposed as funding becomes available. Mothball costs mainly include water, gas, oil, and electrical utility services, along with a minimal staff to complete maintenance and ensure overall security of the property. The list of mothballed facilities includes:

- Brunswick Correctional Center
- Botetourt Correctional Center
- Pulaski Correctional Center
- Dinwiddie Field Unit

- Tazewell Field Unit
- White Post Detention Center
- James River Correctional Center
- Mecklenburg Correctional Center

The remaining three closed facilities, which have been destroyed, transferred or sold, include:

- Southampton Correctional Center
- Richmond Women's Detention Center
- Chatham Diversion Center

Corrections is planning to open River North Correctional Center in Grayson County in October 2013. Corrections received \$800,000 in funding for fiscal year 2013 to prepare for opening the facility and \$17.2 million for fiscal year 2014 to begin operations. Corrections first priority in selecting inmates to house at River North are state-responsible offenders housed in any local or regional jail which has a waiver from the Board of Corrections' "Standards of Planning, Design, Construction, and Reimbursement of Local Correctional Facilities."

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) operates 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.

VIRGINIA CORRECTIONAL ENTERPRISES

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 2013, VCE employed 1,232 inmates housed in State correctional facilities. These inmates work in 26 operations at 13 institutions and three additional locations. VCE also employs approximately 187 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.

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 2012.

Budget and Actual Expense Analysis by Program for Fiscal Year 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Operation of secure correctional facilities	\$48,500,000	\$53,152,865	\$53,152,856

VCE sales were lower in fiscal year 2012, due to a significant furniture order by the Department of Transportation in 2011 for \$4.5 million, which did not recur in 2012. The following information from VCE's internal accounting system summarizes financial results for fiscal years 2011 and 2012.

	June 30, 2012	June 30, 2011
Charges for sales and services	<u>\$49,656,699</u>	<u>\$54,328,102</u>
Cost of goods sold:		
Raw materials consumed	24,659,657	25,738,116
Inmate compensation	<u>1,374,729</u>	<u>1,323,628</u>
Total cost of goods sold	<u>26,034,386</u>	<u>27,061,744</u>
Manufacturing overhead	10,278,044	12,985,328
Administrative and warehouse expenses	<u>11,848,829</u>	<u>11,113,784</u>
Total cost of goods, overhead, and operating expenses	<u>48,161,259</u>	<u>51,160,856</u>
Operating income	<u>1,495,440</u>	<u>3,167,246</u>
Transfers to the General Fund	(2,231,351)	(1,722,506)
Other income	<u>195,195</u>	<u>99,417</u>
Total Non-operating revenues/(expenses)	<u>(2,036,156)</u>	<u>(1,623,089)</u>
Net income	<u>(\$ 540,716)</u>	<u>\$ 1,544,157</u>

Sales Information by Industry

VCE operates 15 industries. Of these industries, the wood industry is the largest in sales volume, accounting for 30 percent of all sales in fiscal year 2012. Overall, six industries account for the majority of sales, as shown below.

	<u>Revenue</u>
Wood	\$15,082,660
Key Office Systems	9,057,029
Tags	6,629,587
Clothing	5,886,146
Metal	3,925,314
Print	3,961,042
Other	<u>5,114,921</u>
Total	<u>\$49,656,699</u>



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 1, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2012. 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, 2012. In support of this objective, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in the Department's accounting records, reviewed the adequacy of 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, regulations, contracts, and grant agreements.

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
- Capital outlay
- Commissary funds
- Contract management
- Expenses, including payroll
- Information system security
- Inmate trust funds
- Inventory
- Revenue and cash receipts
- 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, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described 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. However, we did not perform audit work related to the finding from the prior year entitled "Improve Internal Controls over Procurement of Contractual Services and Contract Administration." Due to the timing of the prior year report, the

Department has created new policies and procedures but has not had time to implement them. Therefore, we will follow up on the finding in the fiscal year 2013 audit.

Exit Conference and Report Distribution

We discussed this report with management on August 1, 2013. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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/clj



COMMONWEALTH of VIRGINIA

HAROLD W. CLARKE
DIRECTOR

Department of Corrections

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

August 1, 2013

Ms. Martha Mavredes
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, 2012.

Dear Ms. Mavredes:

The Department of Corrections has reviewed 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, 2012. We understand the findings and appreciate the opportunity to respond to the recommendations.

We believe the Department of Corrections will provide 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,

A handwritten signature in cursive script, appearing to read "N.H. Scott".

N.H. Scott
Deputy Director Administration

cc: Mr. Harold W. Clarke
Mr. Louis B. Eacho

DEPARTMENT OF CORRECTIONS

Harold W. Clarke, Director

Debra Gardner, Chief Deputy

A. David Robinson, Chief of Corrections Operations

N.H. “Cookie” Scott, Deputy Director, Administration

Wayne Bennett, Superintendent for Education

H. Paul Broughton, Director of Human Resources

Louis Eacho, Chief Fiscal Officer

BOARD OF CORRECTIONS

Cynthia M. Alksne

Peter G. Decker, III

Jonathan T. Blank

Linda D. Curtis

Kurt A. Boshart

William E. Osborne

Felipe Q. Cabacoy

Rev. Anthony C. Paige

Carl R. Peed

PAROLE BOARD

Rita J. Angelone

William W. Muse

Karen D. Brown

Minor F. Stone

Frederick M. Quayle

VIRGINIA CORRECTIONAL ENTERPRISES

Edward Murray, Acting VCE Chief Executive Officer

James Sacher, VCE Business Manager