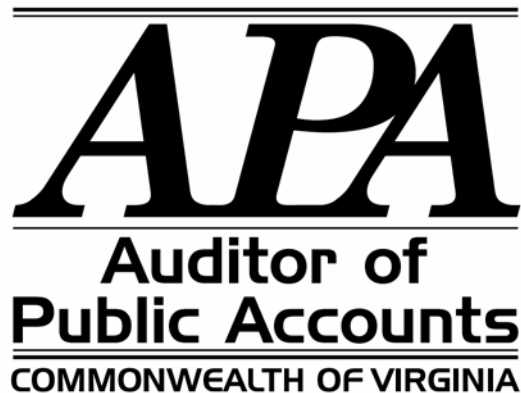


DEPARTMENT OF CORRECTIONAL EDUCATION

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit of the Department of Correctional Education, for the two-year period ended June 30, 2006, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- some matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

The internal control matters are reported fully in the section entitled "Audit Findings and Recommendations."

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Separation of Duties over CARS

The Department of Correctional Education does not have proper separation of duties over processing transactions in the Commonwealth Accounting and Reporting System (CARS). We found three individuals who have access to CARS that can enter, approve, and release the same transaction. We found five instances of a single individual entering, approving, and releasing a batch. Although the transactions were reasonable, this ability increases the possibility of an improper transaction occurring. For proper separation of duties, the same individual should not be able to enter, approve, and release a batch. Correctional Education should change the access of these individuals so they do not have the ability to enter, approve, and release a single transaction.

Improve Controls over Systems Access

Correctional Education does not have adequate procedures to ensure removal of employee access to computer systems upon termination of employment. We found one individual with access to Payline, which includes employees' salary and other personal information, for 18 months after termination. Since this system is accessible from any Internet connection, it is critical that Correctional Education remove access immediately upon employee termination to reduce the risk of improper use of the information. Correctional Education should develop and implement procedures to ensure removal of system access upon employee termination. This process may include a form initiated in the Human Resource department upon notification of employee termination that includes items such as system access deletion, return of any charge cards, and return of any issued fixed assets. This form would serve as a trigger to ensure these actions occur upon termination.

AGENCY HIGHLIGHTS

The Department of Correctional Education (Correctional Education) is an independent school district with its own school board that operates in cooperation with the Departments of Corrections and Juvenile Justice. Correctional Education serves as Virginia's statewide prison education system for youth and adult offenders assigned to 27 adult correctional centers, ten correctional field units, five work centers, eight day-reporting centers, four adult detention centers, six adult diversion centers, three adult reception centers, seven juvenile correctional centers, and one youth reception center. The juvenile schools are accredited, and all teachers and administrators must meet the same certification and endorsement standards established for public school personnel by the Virginia Department of Education.

Correctional Education provides testing and educational assessments for all youth and adults, as well as mandated special education evaluation and services for identified youth and adult inmates. The schools provide mandated middle and secondary-level academic instruction, special education, social skills, transition education, cognitive skills development, General Educational Development (GED) instruction, and career and technical instruction to the total youth population in 22 different trade areas. It administers SAT college preparation tests and assists those students who wish to apply to colleges and universities, while providing adult education, literacy instruction, special education, social skills, GED instruction, and vocational instruction in 37 different trade areas to the adult population.

Correctional Education programs try to assist individuals to realize their potential and become productive members of society. Adult inmates and youth offenders have the opportunity to be literate when they leave the prison or juvenile correctional center. The focus on instruction enhances each student's employment possibilities and life skills and aids in transitioning students into the job market and their communities upon release.

The following schedules provide information on the operating budget and expenses for fiscal years 2005 and 2006.

Analysis of Budgeted and Actual Expenses By Funding Source – FY 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Funding Source:			
General fund appropriations	\$ 46,325,900	\$ 47,126,729	\$ 47,126,729
Special revenue funds	69,770	69,770	-
Federal funds	<u>1,766,795</u>	<u>2,406,439</u>	<u>2,367,172</u>
Total resources	<u>\$ 48,162,465</u>	<u>\$ 49,602,938</u>	<u>\$ 49,493,901</u>

Analysis of Budgeted and Actual Expenses By Funding Source – FY2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Funding Source:			
General fund appropriations	\$ 46,874,320	\$ 51,434,523	\$ 51,434,523
Special revenue funds	69,770	124,403	54,243
Federal funds	<u>1,766,795</u>	<u>2,070,735</u>	<u>1,969,782</u>
Total resources	<u>\$ 48,710,885</u>	<u>\$ 53,629,661</u>	<u>\$ 53,458,548</u>

Correctional Education's budget increased over \$1.4 million in fiscal year 2005 and \$4.9 million in fiscal year 2006. General fund appropriations increased \$800,000 in fiscal year 2005 and \$2.9 million in fiscal year 2006 because of increased salary and fringe benefits for employees. The general fund appropriation also increased \$1.7 million in fiscal year 2006 due to a change in the pay date approved by the Governor. The federal fund appropriation increased over \$600,000 in fiscal year 2005 and over \$300,000 in fiscal year 2006 due to increased availability of federal revenues.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 5, 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

We have audited the financial records and operations of the **Department of Correctional Education** for the period July 1, 2004 through June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT OBJECTIVES

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Correctional Education's internal controls, and test compliance with applicable laws and regulations.

AUDIT SCOPE AND METHODOLOGY

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

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered 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.

- Payroll expenditures
- Small purchase charge card
- Fixed assets

We performed audit tests to determine whether Correctional Education'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 Correctional Education's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

CONCLUSIONS

We found that Correctional Education properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Correctional Education 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.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The internal control matters are described in the section entitled "Audit Findings and Recommendations."

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on April 19, 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



COMMONWEALTH of VIRGINIA

Department of Correctional Education (DCE)

Office of the
Superintendent of Schools

James Monroe Building - 7th Floor
101 North 14th Street
Richmond, Virginia 23219-3678

Local: (804) 225-3310
TDD: 371-8467

April 24, 2007

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

Dear Sir:

We are providing this letter as a response to your findings with the audit of the Department of Correctional Education for the period between July 1, 2004, and June 30, 2006.

The Department of Correctional Education concurs with your two recommendations concerning internal controls. You have recommended that the agency improve the separation of duties over the processing of transactions in the Commonwealth Accounting and Reporting System (CARS), and that we create procedures to better assure that employees are removed from computer systems access upon their termination from employment. As of April 5, 2007, CARS access has been limited to ensure segregation of duties in CARS. The agency has also developed and implemented procedures to ensure removal of systems access upon employment termination.

Thank you and your staff for your advice and cooperation during the audit, and with kindest regards, I am.

Sincerely,

A handwritten signature in black ink, appearing to read "Walter A. McFarlane".

Walter A. McFarlane
Superintendent

An Equal Opportunity Employer

AGENCY OFFICIALS

DEPARTMENT OF CORRECTIONAL EDUCATION

Walter MacFarlane, Superintendent

Jeanette Wade, Director of Finance

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