

**DEPARTMENT OF CORRECTIONAL EDUCATION  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE TWO-YEAR PERIOD ENDED  
JUNE 30, 2000**



## **AUDIT SUMMARY**

Our audit of the Department of Correctional Education for the two-year period ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter that we consider a reportable condition; however, we do not consider this to be a material weakness; and
- instances of noncompliance that are required to be reported.

We recommend that Correctional Education improve internal controls and compliance within the Finance Department, as discussed in the section titled “Agency Background, Financial Highlights, and Internal Control and Compliance Findings and Recommendations.”

March 15, 2001

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

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

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Correctional Education** for the two-year period ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objective, Scope, and Methodology

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

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

Expenditures  
Revenues  
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's 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.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit 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 generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. A reportable condition, entitled "Improve Internal Control and Compliance within the Finance Department" is described in the section titled "Agency Background, Financial Highlights, and Internal Control and Compliance Findings and Recommendations." We believe that the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance, entitled "Improve Internal Control and Compliance within the Finance Department" are described in the section titled "Agency Background, Financial Highlights, and Internal Control and Compliance Findings and Recommendations."

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management on March 23, 2001.

AUDITOR OF PUBLIC ACCOUNTS

AGENCY BACKGROUND, FINANCIAL HIGHLIGHTS, AND  
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

The Board of Correctional Education (the Board) establishes and maintains a general system of schools for persons committed to institutions operated by the Department of Corrections and the Department of Juvenile Justice. The Department of Correctional Education (Correctional Education) uses a school district model providing both academic and vocational education opportunities for youths and adults.

Correctional Education designs educational programs to develop student knowledge, skills, and attitudes to facilitate successful community adjustment and enhance employment opportunities. The Board, which functions like a local school board, and the Superintendent of Schools directs the operations of Correctional Education. Correctional Education began educational programs at two new adult facilities, Wallens Ridge and Sussex II, and one new juvenile facility, Culpepper, during fiscal year 1999.

To support teacher pay parity with local schools, Correctional Education received \$2.5 million and \$3.7 million from the General Assembly in 1999 and 2000, respectively. These additional appropriations were to increase correctional teachers' salaries to an amount comparable to those of public school teachers.

*Improve Internal Control and Compliance within the Finance Department*

Correctional Education experienced a high level of turnover within its Finance Department toward the end of fiscal year 2000 and early in fiscal year 2001. Within a six-month period, Correctional Education's Accounts Payable Supervisor retired, three Fiscal Technicians resigned to pursue other job opportunities, and Correctional Education replaced the Director of Finance. Correctional Education's Assistant Director of Finance also retired effective March 1, 2001.

Correctional Education does not maintain current and complete policies and procedures for the primary functions of the Finance Department. Correctional Education also did not properly supervise its voucher processing staff or perform an adequate review of small purchase charge card purchases. The lack of documented policies and procedures, improper supervision, and high staff turnover resulted in many voucher processing errors and noncompliance.

Finance personnel improperly calculated due dates on 10 out of 24 vouchers tested and paid vouchers ranging from 21 days early to 5 days late. Finance personnel did not assign due dates for 3 out of 24 vouchers tested. Two out of three American Express vouchers tested included small purchase charge card (SPCC) purchases that exceeded the individual purchase limit of \$5,000. Finance personnel processed two out of 24 vouchers tested with multiple invoices but did not include individual lines of coding for each invoice.

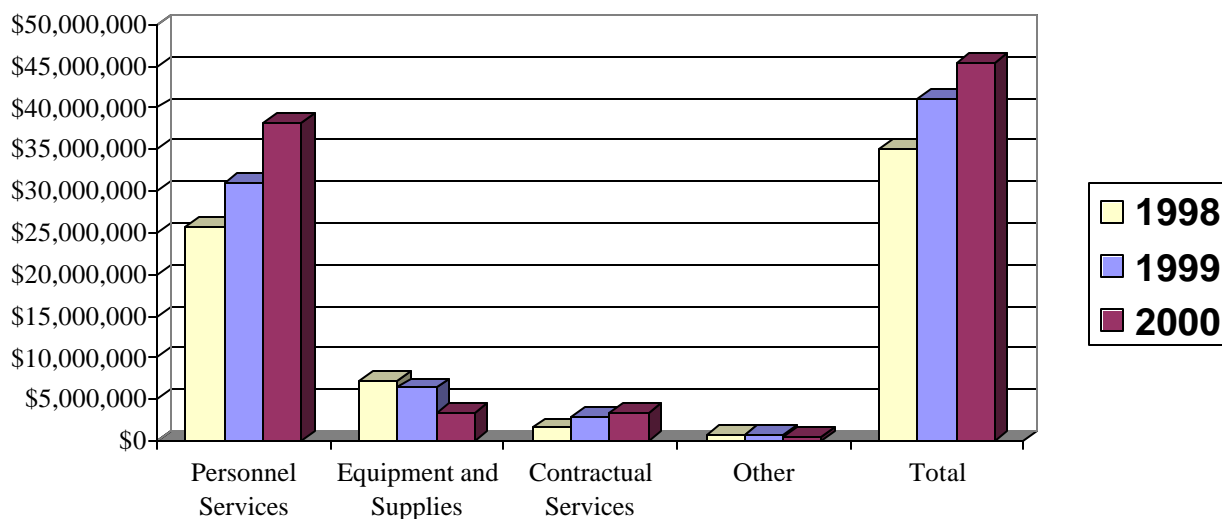
Correctional Education should develop, distribute, and maintain agency specific policies and procedures for areas that may differ from the Commonwealth Accounting Policies and Procedures (CAPP) manual, particularly for supervisory reviews and primary internal control functions. The new Director of Finance should supervise all voucher processing staff and restructure the voucher review process to add individual accountability for reviewing vouchers processed. The SPCC Program Administrator should more thoroughly review monthly SPCC logs and reconciliations, following up on purchases that appear inappropriate. Correctional Education should review the current SPCC purchase limits and determine whether any changes

in the limits are necessary. We encourage Correctional Education to continue to fill the vacated Finance positions and address these issues.

### Financial Highlights

Correctional Education's revenue totaled \$42,648,113 and \$45,765,405 in fiscal years 1999 and 2000, respectively. General Fund appropriations represented 92 percent and 94 percent of the revenue sources in each year, respectively, with the remaining revenue coming from federal grants and other sources related to educational activities. The proportion of General Fund appropriations in relation to all revenue sources has remained relatively constant in recent years.

### **Comparison of 1998, 1999, and 2000 Expenditures**



Personnel Services represents salary and fringe benefit costs for Correctional Education's employees. Computer, educational, and office equipment purchases represent the majority of equipment and supplies expenditures while training, technical services, and telecommunication services make up the majority of contractual services. Building and equipment rentals account for the majority of other expenses. The increases in expenditures in fiscal years 1999 and 2000 relate to an increase in positions due to the opening of new facilities and the teacher parity salary adjustments. Correctional Education established 61 new positions in fiscal year 1999 and continued to fill vacant positions in fiscal year 2000, reducing their vacancy rate from 16 percent to eight percent.

DEPARTMENT OF CORRECTIONAL EDUCATION

Richmond, Virginia

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