



DEPARTMENT OF CORRECTIONS

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2017

Auditor of Public Accounts
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AUDIT SUMMARY

We performed an audit at the Department of Corrections (Corrections) for the period July 1, 2015, through June 30, 2017. Our audit included internal controls and balances over the following areas:

- Personnel, including payroll expenses, year-end compensated absences liability and related personnel information reported in the Commonwealth's retirement system
- Inventory management, including year-end inventory counts and balances
- Purchasing, including contract management and small purchase charge cards
- Information systems access over related information systems

We also followed up on prior year findings entitled "Manage Offender Trust Accounts in Accordance with Requirements" and "Remove Terminated Employee Access to Syteline in a Timely Manner." In future years, we will follow up on the other findings reported in the prior year.

Relative to the areas we tested, we found:

- proper recording and reporting of payroll expenses, in all material respects, in the Commonwealth's payroll system and the Commonwealth's accounting and financial reporting system;
- proper reporting, in all material respects, of year-end payroll and inventory information submitted to the Department of Accounts;
- three matters involving internal control and its operation necessary to bring to management's attention;
- four instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year for which we performed follow up procedures during this audit.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Controls Over Building and Grounds Inventory at Fluvanna Correction Center for Women

Type of Finding: Internal Control and Compliance

Repeat: No

The Fluvanna Correctional Center for Women (FCCW) needs to improve their inventory valuation process to ensure building and grounds inventory is properly valued and complies with the Commonwealth's requirements. FCCW staff are not consistently updating Corrections' inventory management system, and are not maintaining documentation to support the costs of inventory items.

FCCW staff did not retain documentation to support the cost of inventory items recorded in the system for six of 40 (15%) items tested in February 2017. In addition, FCCW staff failed to update inventory items in the system to reflect the most recent purchase amount for four of 40 (10%) items. As a result, inventory items were valued at outdated costs that in some cases were over three years old.

We followed up on these issues in June 2017 and performed work on the building and grounds year-end inventory. While we found that there had been some improvements, similar issues remained. FCCW staff did not properly value two of 25 (8%) items in the building and grounds fiscal year-end inventory. In these cases, FCCW could not provide support for inventory costs recorded in the inventory management system, or they had incorrectly entered the costs into the system.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual, Topic 30515 - Supplies and Materials Inventory, outlines requirements and best practices for agency inventory management and reporting. These requirements include retention of documentation and accurate updating of values and quantity of inventory. These deficiencies affect the accuracy of Correction's year-end inventory reported and reflect a lack of stewardship over Commonwealth assets.

Several factors have contributed to the weaknesses in FCCW's inventory management. The Buildings and Grounds Supervisor position was vacant during this time which has reduced the oversight of the inventory processes. Additionally, Corrections did not require formal inventory management system training for users as they received their system access. As a result, FCCW staff may not have an adequate understanding of the system's capabilities and the significance of inventory records in the context of Corrections' financial reporting.

FCCW should continue to improve their internal controls over building and grounds inventory management. As part of strengthening their controls, FCCW should consider leveraging the experience of other correctional centers with similar inventories. Specifically, FCCW should consistently update the inventory management system and retain documentation to support adjustments and inventory values. Consideration should also be given to obtaining training for all system users so they fully understand the system capabilities and their responsibilities. Lastly, FCCW should consider performing periodic inventory counts to ensure any new processes are effective.

Improve Internal Controls over Purchasing System Access

Type of Finding: Internal Control and Compliance

Repeat: No

Corrections is not promptly removing terminated employees' access to the Commonwealth's purchasing system. Corrections staff did not deactivate twenty system accounts timely upon employment termination. These employees retained system access and; therefore, the ability to make purchases for two weeks to four months after their termination date. In addition, Corrections' system security officer reactivated and retained access to three system accounts. The security officer did not assign these accounts to a designated custodian as required, creating an improper separation of duties.

The Commonwealth's Information Security Standard, SEC 501-09 (Security Standard), Section AC-2 Account Management, requires an agency to notify the system administrator when a system user terminates employment. The Security Standard also requires the system administrator promptly remove access when it is no longer required. The Department of General Services' guidelines over the Commonwealth's purchasing system allows the Security Officer to reactivate terminated users' accounts and assign them to a custodian when necessary. This may be necessary when a deactivated account is a required approver for certain users or certain purchases and is a means to redirect purchase requisitions automatically sent to the deactivated user.

Terminated employees who retain system access can place or approve purchase requisitions and purchase orders, depending on their account settings. Compensating controls do exist in the form of various required approvals in the purchasing system; however, allowing terminated employees to have access to the system exposes Corrections to unnecessary risk. Additionally, reactivating the accounts of terminated users without assigning them to a specified custodian creates a segregation of duties issue because the Security Officer can have purchase approval and purchase requisition capabilities.

Corrections was without a Procurement Director from October 2016 until February 2017, and this contributed to these issues. The Procurement Director is responsible for periodically generating a report to identify terminated employees with purchasing system access, and this procedure was not performed while this position was vacant. Another contributing factor is that employee supervisors do not always notify the Security Officer timely when employees terminate employment.

Corrections should strengthen controls over the deletion of purchasing system access for terminated employees. Corrections should ensure supervisors are completing the "termination checklist" and contacting the Security Officer to request system access deletion in a timely manner. If supervisors are not following this procedure, management should take action to ensure supervisors perform this control.

Perform Annual Access Certifications for Information Systems

Type of Finding: Internal Control and Compliance

Repeat: No

Corrections' procedures do not require an annual certification of systems access for the inventory management system. This system maintains records of the majority of Corrections' inventory balances that are considered material to the Commonwealth's financial statements.

The Security Standard, Section AC-2 Account Management, states that agencies should annually review system accounts for compliance with account management requirements. Corrections has implemented new procedures over system access controls for the inventory management system in the past year. The procedures include reviewing system access against disabled accounts on a weekly basis, and a quarterly review of accounts to ensure all system users are still active employees; however, Corrections' procedures do not include an annual review to ensure system access is still necessary and reasonable based on employee job duties. The procedures, as currently designed, would not detect an employee's transfer to a new facility, or a change of job responsibilities, which happens frequently given the nature of Corrections operations.

Corrections should perform annual system access certifications to ensure compliance with the Security Standard and reduce the risk of unauthorized access. Inappropriate access increases the risk of unauthorized activity over inventory.

Comply with 1,500 Hour Rule for Wage Employees

Type of Finding: Compliance

Repeat: No

Corrections should improve their process for monitoring non-benefit employee work hours to ensure compliance with Chapter 836 §4-7.01g of the 2017 Virginia Acts of Assembly. Corrections is responsible for implementing policies and procedures to ensure employees who are not eligible for benefits do not work more than 29 hours per week on average over a twelve-month period. Corrections has policies and procedures in place to monitor this, but keying and calculation errors resulted in three non-benefit employees exceeding the 1,500 hour requirement for the period May 1, 2016, to April 30, 2017.

For certain Commonwealth employees, Chapter 836 §4-7.01 g of the 2017 Virginia Acts of Assembly requires that they may not work more than 29 hours per week on average over a twelve month period. To implement this requirement, Human Resource Policy 2.20, developed by the Department of Human Resource Management, states that wage employees are limited to working 1,500 hours per agency per year. This policy was developed to ensure that the Commonwealth is complying with the requirements of the Patient Protection and Affordable Care Act, which could bring penalties for noncompliance.

To avoid penalty payments and ensure compliance with state and federal requirements, Corrections should follow its policies and procedures to assist in monitoring non-benefit employees to ensure hours worked do not exceed 1,500 hours annually. This includes making sure that information used in the calculations are accurate.

AUDIT SCOPE AND FINANCIAL INFORMATION

Corrections operates Virginia’s correctional facilities for adult offenders and directs the work of all probation and parole officers. Their mission is to enhance the quality of life in the Commonwealth by improving public safety. Corrections operates a central office in Richmond, as well as various correctional institutions and units across the state, including 25 major correctional institutions. These facilities house approximately 29,000 offenders. Corrections also oversees one privately operated institution that houses another 1,500 offenders.

Corrections’ payroll and fringe benefit expenses are material to the Commonwealth’s financial statements and this cycle is included in our audit scope. Corrections has over 12,000 employees statewide, with the majority of these being located in major correctional centers. Most major correctional centers also maintain various inventories of items needed for operations. Examples of inventory items are food, clothing, and building and grounds items. Corrections year-end inventory is valued at approximately \$16 million and is material to the Commonwealth’s financial statements; therefore, this area is also included in our audit scope.

As part of our audit, we typically visit a sample of correctional institutions to review certain aspects of their operations. Our audit scope included various aspects of operations at the following institutions – *Deep Meadow Correctional Center, Deerfield Correctional Center, Fluvanna Correctional Center, Greensville Correctional Center, Nottoway Correctional Center, and River North Correctional Center*. Virginia Correctional Enterprises and the Virginia Parole Board were not included in our audit scope.

Corrections’ primary source of funding is General Fund appropriations, which pay over 95 percent of operating expenses. Tables 1 and 2 show fiscal year 2016 and 2017 budget and expense information at the program level. Corrections has historically done appropriation transfers between its various programs to realign activity and this explains the majority of the differences between the original and final budget amounts for both years.

Budget and Actual Expenses by Program for Fiscal Year 2016

Table 1

	Original Budget	Final Budget	Actual Expenses
Operation of Secure Correctional Facilities	\$ 935,217,673	\$ 867,908,152	\$ 866,994,712
Administrative and Support Services	101,568,441	131,404,051	126,576,588
Supervision of Offenders and Re-entry Services	89,578,157	88,496,687	87,597,386
Instruction	28,275,933	27,859,226	27,498,546
Capital Outlay Projects	-	81,755,330	18,175,022
Operation of State Residential Community Correctional Facilities	18,334,035	15,942,377	15,649,734
Probation and Parole Determination	1,397,297	1,507,658	1,439,555
Total	\$1,174,371,536	\$1,214,873,481	\$1,143,931,543

Budget and Actual Expenses by Program for Fiscal Year 2017

Table 2

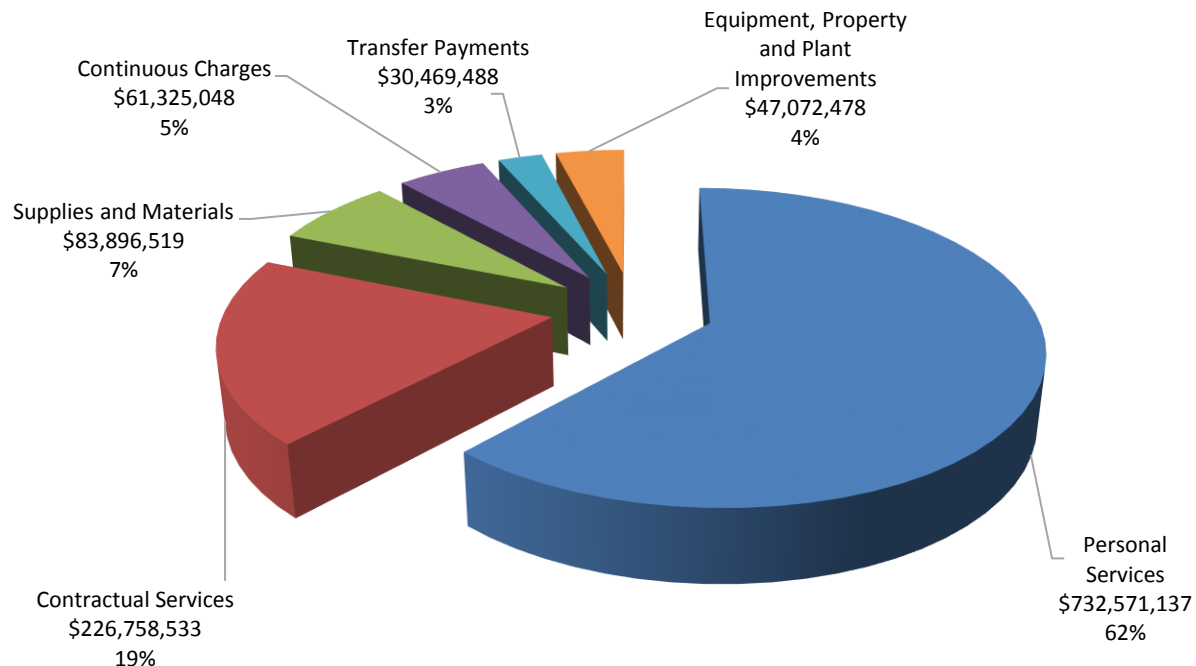
	Original Budget	Final Budget	Actual Expenses
Operation of Secure Correctional Facilities	\$ 954,242,819	\$ 892,706,743	\$ 892,211,726
Administrative and Support Services	100,010,244	133,960,796	130,935,769
Supervision of Offenders and Re-entry Services	97,450,960	92,018,966	90,923,186
Instruction	28,816,944	27,846,875	27,508,306
Capital Outlay Projects	1,770,000	96,662,148	24,504,381
Operation of State Residential Community Correctional Facilities	16,419,906	14,483,612	14,394,741
Probation and Parole Determination	1,545,204	1,647,958	1,615,094
Financial Assistance for Confinement of Inmates in Local and Regional Facilities	766,483	766,483	-
Total	\$1,201,022,560	\$1,260,093,581	\$1,182,093,203

Source: Commonwealth's accounting and financial reporting system

As discussed earlier, payroll and fringe benefits costs are a significant cost to the agency, accounting for 60 percent of overall expenses as seen in Chart 1 (Personal Services). Corrections' second largest expense area is contractual services, which we also included in our audit scope. Corrections has several contracts for services at various facilities including food services, medical, and prescription drug services. In November 2015, Corrections entered into a new medical services contract with a different vendor to provide medical services at most institutions.

Operating Expenses by Type – Fiscal year 2017

Chart 1



Source: Commonwealth's accounting and financial reporting system



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 1, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

We have audited the areas listed in the "Audit Objectives" section for the **Department of Corrections** for the period of July 1, 2015, through June 30, 2017. 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, relative to personnel and inventory, was to evaluate the accuracy of the Department's financial transactions as reported in the Comprehensive Annual Financial Report (CAFR) for the Commonwealth of Virginia for the for the years ended June 30, 2016, and June 30, 2017. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting, and payroll systems; evaluated the accuracy of related personnel information reported in the Commonwealth's retirement system; reviewed the adequacy of the Department's internal control; and tested for compliance with applicable laws, regulations, contracts, and grant agreements. We also evaluated the accuracy of the Department's payroll and inventory attachments reported to the Department of Accounts for inclusion in the CAFR for the years ended June 30, 2016, and June 30, 2017.

Our audit's primary objectives, relative to purchasing, were to review the adequacy of the Department's internal controls over contract management and small purchase charge cards; and test compliance with applicable laws, regulations, contracts, and grant agreements.

We also reviewed corrective action for audit findings from the prior year as follows: "Manage Offender Trust Accounts in Accordance with Requirements" and "Remove Terminated Employee Access to Syteline in a Timely Manner." In future years, we will follow up on the other findings reported in the prior year.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and 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, regulations, contracts, and grant agreements, as they pertain to our audit objectives. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting, and payroll systems. We found the related personnel information reported in the Commonwealth's retirement systems was accurate, in all material respects.

We found the Department properly stated, in all material respects, the amounts reported in payroll and inventory attachments reported to the Department of Accounts for inclusion in the CAFR for the years ended June 30, 2016, and June 30, 2017.

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 for which we performed follow up procedures during this audit.

Exit Conference and Report Distribution

We discussed this report with management on October 12, 2017. 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

LCW/clj



COMMONWEALTH of VIRGINIA

HAROLD W. CLARKE
DIRECTOR

Department of Corrections

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October 12, 2017

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

RE: APA Audit Report on the Department of Corrections

Dear Ms. Mavredes:

The Department of Corrections has reviewed the Auditor of Public Accounts (APA) report pertaining to the Department of Corrections for the audit period July 1, 2015 through June 30, 2017. We understand the findings and appreciate the opportunity to respond to the recommendations.

The Department of Corrections will provide viable responses to the findings accompanied by plans to appropriately 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 if you have questions regarding this response.

Sincerely,

A handwritten signature in blue ink, appearing to read "N.H. Scott".

N.H. Scott
Deputy Director Administration

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

DEPARTMENT OF CORRECTIONS

As of June 30, 2017

Harold W. Clarke, Director

A. David Robinson, Chief of Corrections Operations

N.H. "Cookie" Scott, Deputy Director, Administration

Scott Richeson, Re-entry and Programs Director

Joseph Walters, Director of Human Resources

Louis Eacho, Chief Fiscal Officer