



DEPARTMENT OF CORRECTIONS
INCLUDING THE
VIRGINIA PAROLE BOARD

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2025

Auditor of Public Accounts
Staci A. Henshaw, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

We have audited the payroll cycle, including related fringe benefits, of the Department of Corrections (Corrections), including the Virginia Parole Board, for the year ended June 30, 2025. Our audit found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's human resource and payroll management system, Corrections' accounting records, and in supplemental information and attachments submitted to the Department of Accounts, after adjustment for the misstatements noted in the finding "Improve Financial Reporting Controls over Leave Liability";
- two matters involving internal control and its operation requiring management's attention, one of which also represents an instance of noncompliance with applicable laws and regulations that is required to be reported under Government Auditing Standards; and
- corrective action on the prior audit finding remains ongoing as indicated in the [Findings Summary](#) included in the Appendix.

In the section titled "Internal Control and Compliance Findings and Recommendations" we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendation.

We also performed a separate review of internal controls over contract procurement, contract management, and expenses related to contractual services, which are not material to the Commonwealth's Annual Financial Report but were identified as financial cycles for additional review under a new risk-based approach. We communicated the results of that review in a separate letter to management titled "[Department of Corrections Internal Control Questionnaire Review Results as of December 2025.](#)"

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-3
INDEPENDENT AUDITOR'S REPORT	4-6
APPENDIX – FINDINGS SUMMARY	7
AGENCY RESPONSE	8

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Financial Reporting Controls over Leave Liability

Type: Internal Control

Severity: Significant Deficiency

The Department of Corrections (Corrections) did not accurately report its leave liability amounts to the Department of Accounts (Accounts) for inclusion in the Commonwealth's Annual Comprehensive Financial Report (ACFR). Corrections reports information on leave liability to Accounts within Attachment 6B – Leave Liability (Attachment 6B). The initial submission of Attachment 6B did not include all required leave types. Corrections resubmitted Attachment 6B to include the additional required leave types 13 days past Accounts' submission deadline. Additionally, Corrections understated short term leave liability by approximately \$29.7 million and overstated long term leave liability by the same amount. Corrections does not have documented policies and procedures for the complex process used to calculate year-end leave liability, which involves significant estimates and manual processes. Corrections evaluated the applicability and requirements of Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences, but did not fully apply the standard during its preparation of leave liability amounts.

Accounts' Comptroller's Directive No. 1-25 establishes compliance guidelines and addresses financial reporting requirements for state agencies to provide information to Accounts for the preparation of the ACFR as required by the Code of Virginia. Accounts requires state agencies to submit information as prescribed in the Comptroller's Directives and individuals preparing and reviewing the submissions are required to certify the accuracy of the information provided to Accounts. Additionally, best practices for financial reporting require detailed, documented policies and procedures and a sufficient review process to ensure the accuracy of reported information.

Corrections' financial activity is material to the Commonwealth's ACFR, so it is essential for the agency to have strong financial reporting practices. Errors in submissions to Accounts could cause inaccurate financial information to be reported in the Commonwealth's financial statements. Additionally, the lack of adequate review processes and formal procedures increases the likelihood of future errors. Corrections does not have sufficiently detailed policies or procedures governing the calculation and reporting of leave liability, including controls over the estimation and manual processes. Although Corrections evaluated GASB Statement No. 101, the agency did not fully incorporate the requirements of the standard into its reporting methodology.

Corrections should develop and implement detailed policies and procedures governing the calculation and reporting of leave liability, including controls over the estimation and manual processes. Corrections should also enhance review controls to ensure the accuracy and proper classification of all leave liability amounts before submission to Accounts. Finally, Corrections should ensure full implementation of all applicable GASB standards, including GASB Statement No. 101, and proactively update financial reporting processes when new standards become effective.

Improve Internal Controls over Employee Termination Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2023

Corrections' Human Resources Department (Human Resources) and Payroll Department (Payroll) do not have adequate internal controls over the terminated employee offboarding process resulting in multiple deficiencies including overpayments of final compensation and failure to deactivate system access and cease compensation. Specifically, we identified the following deficiencies:

- Two terminated employees continued to receive payroll disbursements after termination. The payments we reviewed during fiscal year 2025 occurred between 54 and 490 days after the employees' termination and totaled \$10,680 and \$15,583. We identified these errors from a sample of terminated employees with high-risk characteristics; therefore, we did not project the results of our work to the entire population of terminated employees.
- Human Resources and Payroll did not accurately calculate final compensation for four terminated employees. Corrections overpaid three employees by not recouping the pro-rated portion of bonuses owed at the time of separation. Additionally, Corrections overpaid another employee by miscalculating the final payment. The overpayments to these four employees ranged from \$390 to \$1,746. We identified three of these errors from a random sample selected for other testing purposes and one from a sample of terminated employees with high-risk characteristics; therefore, we did not project the results of our work to the entire population of terminated employees.
- Supervisors did not submit deactivation requests timely for the removal of system access for nine of 23 (39%) terminated employees sampled.
- Human Resources did not enter nine of 34 (26%) sampled employees' termination dates within the Commonwealth's human resource and payroll management system within 24 hours of the employees' termination date.
- Payroll did not properly calculate and pay leave balances upon termination for one of 18 (5%) terminated employees sampled, resulting in an underpayment of \$906.
- Human Resources did not collect Commonwealth property for one of 19 (5%) terminated employees sampled.
- Human Resources was unable to provide documentation of a fully completed offboarding checklist for one of 27 (4%) terminated employees sampled.

Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) Topic 50320 requires agencies to complete certain procedures prior to termination of an employee in the Commonwealth's

human resource and payroll management system. Additionally, the Commonwealth's Information Security Standard, SEC 530, states an organization must disable information system access within 24 hours of employee separation and terminate any authenticators or credentials associated with the individual.

Corrections does not have sufficient, standardized, and documented internal controls over terminated employees, which increases the risk that terminated employees may retain physical access to Commonwealth property, retain unauthorized access to state and internal systems and sensitive information, and receive inaccurate final payments and compensation after termination. Corrections operates multiple facilities throughout the Commonwealth. Each facility is responsible for maintaining accurate employee personnel records, completing offboarding checklists, and performing offboarding procedures in a timely manner. The decentralized nature of the agency and the secure nature in which the facilities operate further increases the exposure risk.

Each facility should ensure that supervisors perform their responsibilities to complete and submit separation checklists, enter termination dates timely within the Commonwealth's human resource and payroll management system, and inform Correction's Information Technology Security Department of employee terminations to ensure timely deactivation of system access, collection of Commonwealth property, and cessation of compensation. Further, Corrections should identify and correct any improper leave payouts, final payments, and payments after termination and ensure that all payroll technicians are aware of policies and procedures surrounding leave payouts, recoupment of bonuses, and cessation of compensation. Finally, Corrections should review its current termination practices to ensure that its policies are reasonable, that effective internal controls are in place, and that documentation is readily available upon request.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Marcus Anderson
Secretary of Public Safety and Homeland Security

Chadwick S. Dotson
Department of Corrections

We have audited the financial records and operations relating to the payroll cycle, including related fringe benefits, of the **Department of Corrections** (Corrections), including the Virginia Parole Board, for the year ended June 30, 2025. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Comprehensive Financial Report audit. 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 Corrections' financial transactions as reported in the Annual Comprehensive Financial Report for the Commonwealth of Virginia for the year ended June 30, 2025. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's human resource and payroll management system, in Corrections' accounting records, and supplemental information and attachments submitted to the Department of Accounts; reviewed the adequacy of Corrections' internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to an audit finding from prior reports.

Audit Scope and Methodology

Corrections' 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, sufficient to plan the audit. We considered materiality 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:

Payroll expenses, including fringe benefits
Information systems access

We performed audit tests to determine whether Corrections' 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 Corrections' operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit 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.

Our consideration of internal control over financial reporting (internal control) was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Improve Financial Reporting Controls over Leave Liability" and "Improve Internal Controls over Employee Termination Process," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Conclusions

We found that Corrections properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s human resource and payroll management system, Corrections’ accounting records, and supplemental information and attachments submitted to the Department of Accounts, after adjustment for the misstatements noted in the finding titled “Improve Financial Reporting Controls over Leave Liability.”

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 titled “Internal Control and Compliance Findings and Recommendations.”

Corrections has not completed corrective action with respect to the prior audit finding identified as ongoing in the [Findings Summary](#) included in the Appendix.

Since the findings noted above include those that have been identified as significant deficiencies, they will be reported as such in the “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards,” which is included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2025. The Single Audit Report will be available at www.apa.virginia.gov in February 2026.

Exit Conference and Report Distribution

We discussed this report with management at an exit conference held on January 16, 2026. [Government Auditing Standards](#) require the auditor to perform limited procedures on Corrections’ response to the findings identified in our audit, which is included in the accompanying section titled “Agency Response.” Corrections’ response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

MBR/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Improve Financial Reporting Controls over Leave Liability	Ongoing	2025
Improve Internal Controls over Employee Termination Process	Ongoing	2023

* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



COMMONWEALTH of VIRGINIA

Department of Corrections

JOSEPH W. WALTERS
DIRECTOR

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

February 6, 2026

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

Dear Ms. Henshaw,

The Department of Corrections has reviewed the Auditor of Public Accounts (APA) report pertaining to the Department for the audit period July 1, 2024, through June 30, 2025. We understand the continuation of a finding from the prior year regarding internal controls over the employee termination process and the additional finding regarding financial reporting controls over leave liability.

The Department of Corrections will continue to implement the corrective action plan appropriately and specifically address the issues regarding the employee termination process raised by the APA. The Department continues to perform periodic internal testing to ensure the action plan controls outlined are effective in remediating the finding and will adjust the plan as needed. The Department is developing the corrective action plan for the new finding regarding financial reporting controls over leave liability reporting to fully address the internal control weakness and ensure compliance 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 black ink, appearing to read "J. Walters", written over a white background.

Joseph W. Walters
Director

cc: Dean W. Ricks, Chief Financial Officer