

**DEPARTMENT OF CORRECTIONS AND
VIRGINIA PAROLE BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2001, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- certain internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with selected provisions of applicable laws and regulations; and
- inadequate implementation of corrective action with respect to the prior audit finding "Ensure Proper Recording and Tracking of Leases."

This report does not include Virginia Correctional Enterprises. We issue a separate report for Virginia Correctional Enterprises.

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AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Corrections (Corrections) operates the state's correctional facilities for adult offenders and directs the work of all probation and parole officers. Corrections has determined that its mission is to enhance public safety by controlling and supervising sentenced offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards. Corrections also coordinates correctional activities that relate to parole with the Parole Board. Corrections processes the financial transactions of the Parole Board and reports its financial information.

Corrections administers operations through a central administrative agency, two central divisions, and four regional offices. The two central divisions are Institutions and Community Corrections. The Institutions division oversees the operations of 27 major correctional centers, five work centers, two reception and classification centers, one treatment center, and 14 field units. During fiscal year 2001, Corrections had an average daily population of 30,638 inmates, including 3,364 out-of-state inmates, in these facilities.

The Community Corrections division had approximately 1,031 inmates in alternative programs, including five detention centers, six diversion centers, and a boot camp for non-violent probationers. In addition, division staff supervised over 41,000 probationers and parolees. Community Corrections operates with 42 Probation and Parole Districts and 546 Probation Officers. In addition, the Community Corrections' Local Facilities Unit is the department's liaison with local and regional jails and lockups.

During fiscal year 2001, Corrections employed over 12,800 individuals, most of who work in the Institutions division. The following schedule compares selected operating statistics for the past five fiscal years. The Department's operating budget has increased over the last five years as it has opened new facilities.

	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001
Average Daily Inmate Population ¹	24,842	24,967	27,118	29,750	31,669
Average Annual Cost Per Inmate	\$ 16,234	\$ 17,253	\$ 18,590	\$ 19,364	\$ 20,909
Total Operating Budget (in millions)	\$ 560	\$ 607	\$ 705	\$ 762	\$ 793

Source: Management Information Summary Report and Population Summary

¹ This ADP includes inmates in all forms of incarceration as described above.

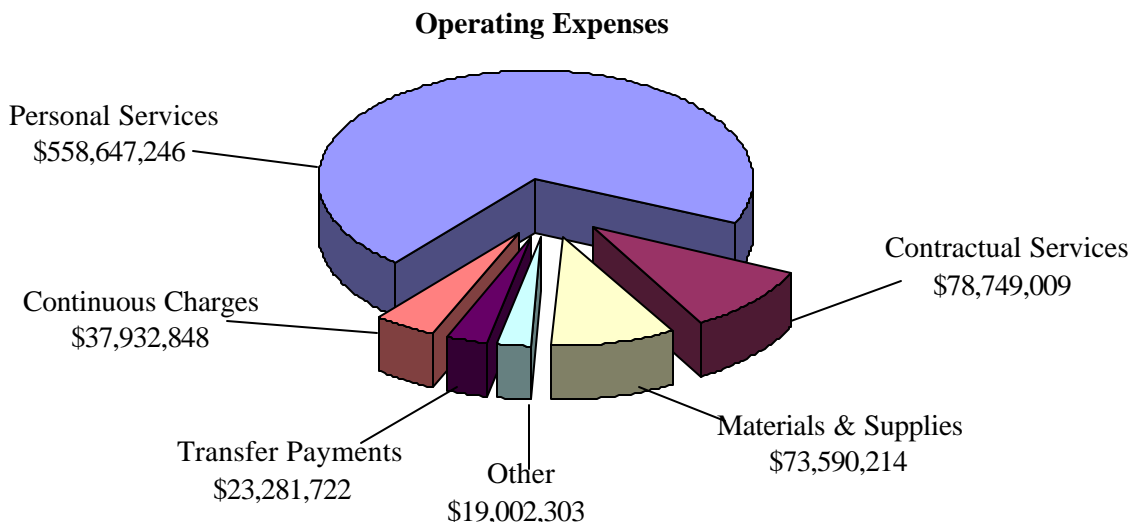
Corrections' primary funding comes from general fund appropriations that pay over 85 percent of the operating expenses. Corrections also receives monies for housing out-of-state inmates and from federal grants. The table on the following page details the original budget, adjusted budget, and actual operating expenses in fiscal year 2001 by program.

As shown in the table, there was a \$9 million appropriation increase in the Administrative and Support Services program under Central Administration. This increase was due to appropriation transfers from other programs to cover central office activities, as well as appropriation increases for information system projects.

Program	Original Appropriations	Adjusted Appropriations	Expenses
<u>Division of Institutions:</u>			
Secure confinement	\$ 398,432,980	\$ 383,257,240	\$ 383,157,215
Administrative and support services	247,468,909	254,744,782	254,026,108
Community-Based Custody	410,751	-	-
Classification services	7,069,328	7,067,161	7,066,796
Operating Special Reserve Fund	2,236,500	-	-
Agribusiness	<u>5,624,262</u>	<u>6,201,344</u>	<u>6,185,707</u>
Total	<u>661,242,730</u>	<u>651,270,527</u>	<u>650,435,826</u>
<u>Division of Community Corrections:</u>			
Probation and re-entry services	58,056,338	58,978,643	57,912,448
Administrative and support services	6,257,133	9,293,610	9,292,678
Community based custody	7,677,496	7,901,442	7,890,604
Confinement and custody research, planning and coordination	198,421	132,792	132,700
Secure Confinement	18,511,040	15,869,085	15,868,373
Financial assistance for confinement in local facilities	<u>33,619</u>	<u>907,567</u>	<u>658,619</u>
Total	<u>90,734,047</u>	<u>93,083,139</u>	<u>91,755,422</u>
<u>Central Administration:</u>			
Administrative and support services	33,768,995	42,651,119	42,207,214
Criminal justice training, education, and standards	3,343,913	4,284,192	4,280,253
Confinement and custody research, planning and coordination	973,888	1,136,644	1,136,614
Vending facilities, snack bars, and cafeterias	<u>518,232</u>	<u>582,206</u>	<u>582,191</u>
Total	<u>38,605,028</u>	<u>48,654,161</u>	<u>48,206,272</u>
Agency Total	<u>\$ 790,581,805</u>	<u>\$ 793,007,827</u>	<u>\$ 790,397,520</u>
<u>Virginia Parole Board:</u>			
Probation and re-entry services	<u>\$ 861,759</u>	<u>\$ 935,411</u>	<u>\$ 805,789</u>

Source: Appropriations Act (Chapter 1073) and the Commonwealth Accounting and Reporting System

The majority of Corrections' expenses are payroll and fringe benefits for the approximately 12,860 employees of the department, which account for 71 percent of Correction's total operating budget. Correction's second largest expense item is contractual services. Corrections has several large contracts for services and goods 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 2001.



Corrections uses the Commonwealth Accounting and Reporting System (CARS) as its primary financial accounting system, but has some funds not recorded on CARS, including inmate trust funds and commissary funds. Inmate trust funds are funds held by the institution for the inmate's use and totaled \$4.2 million at June 30, 2001. The individual institutions manage commissary funds that arise from the sale of personal products to inmates. For fiscal year 2001, commissary revenues and expenses were \$22.8 million and \$22 million, respectively. The commissary fund had a fund balance of \$5.8 million as of June 30, 2001. Corrections intends to use the balance to fund commissary operations in the future.

In addition to the operating expenses discussed above, Corrections also has capital outlay expenses. In fiscal year 2001, Corrections spent \$8.9 million in capital outlay expenses with almost \$1.3 million used for the reconstruction of St. Brides Correctional Center. Corrections is building a new unit at this center and tearing down an old unit. The construction should not increase the center's capacity, but will replace older facilities. Corrections finalized the construction contract in January 2001 and construction started in June 2001. A federal grant is the project's major funding which includes a 10 percent cash match of the total expenses.

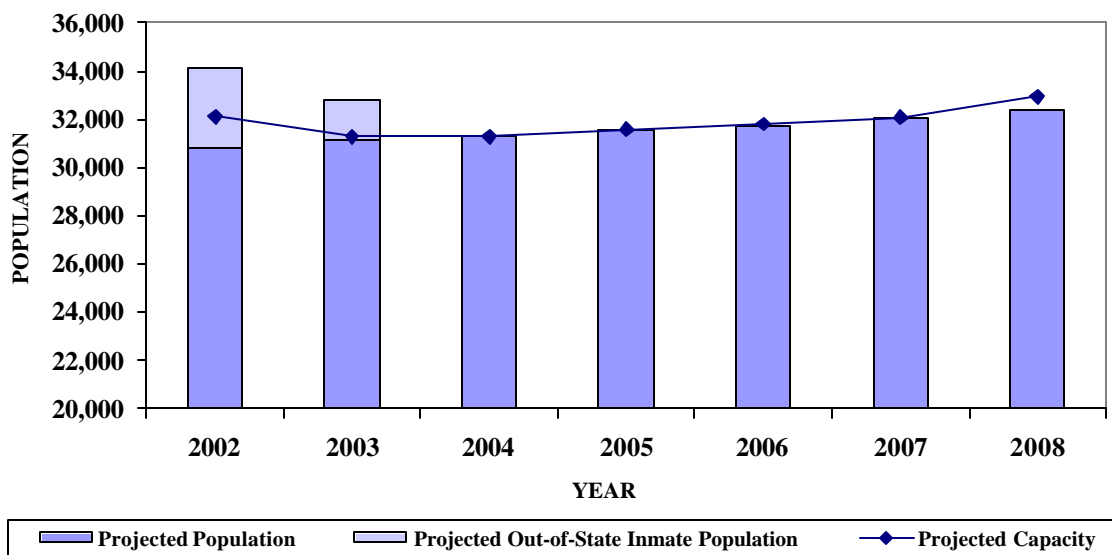
INMATE POPULATION AND CAPACITY

Corrections built and opened five new prisons in recent years. Of these five prisons, Fluvanna and Sussex I opened in fiscal year 1998; Red Onion, Sussex II, and Wallens Ridge opened in fiscal year 1999. Corrections also contracted with a private entity to operate a medium-security prison in Lawrenceville in 1998, which we discuss in more detail in the section entitled "Prison Privatization."

The need for these new facilities came from past inmate population forecasts that projected inmate population would almost double from 29,963 in 1996 to 51,669 in 2005. Actual inmate populations and recent projections have not met these forecasts. This is due to an unexpected drop in the crime rate, which has continued since 1994. Therefore, Corrections has significantly reduced future inmate population projections to reflect the current trends. The new facilities combined with the revised population projections resulted in excess capacity in many facilities. To address this, Corrections began contracting with other states to house some of their inmates. The following graph compares projected future inmate population, including out-of-state inmates, to capacity. Although it appears there will be a slight capacity shortage in fiscal year 2002, this assumes the maximum number of inmates allowed from each contract. Corrections management does not anticipate this shortage as they assume the number of out-of-state inmates will be 90 to 95 percent of the maximum allowed in the contracts. The graph does not include non-compliance inmates in the local jails. Non-compliance inmates are inmates that remain in the local jail 60-days after sentencing as a state responsible inmate unless they meet specified requirements. As of June 2001, there were 1,349 non-compliance inmates in local jails.

PROJECTED PRISON POPULATION AND CAPACITY

Population vs. year vs. capacity



Source: Department of Corrections State Responsible Inmate Population Projections
Out-of-State Inmate Overview and Master Plan

As discussed above, Corrections began contracting to house out-of-state inmates to fill the excess capacity in the prisons. In fiscal year 1998, Corrections began housing out-of-state inmates from Delaware, Iowa, Michigan, Vermont, and the District of Columbia. Since fiscal year 1998, Corrections has added contracts with New Mexico, Connecticut, Hawaii, Wyoming, and the Federal Bureau of Prisons, and terminated contracts with Michigan, Iowa, and Delaware. In fiscal year 2001, the District of Columbia was the largest current contract with over 1,200 out-of-state inmates. As of fiscal year 2002, the District of Columbia inmates became Federal Bureau of Prisons inmates, making them the largest current contract. Corrections charges a daily rate between \$62 and \$75 based on the contract requirements and the security level of the inmates.

Corrections retains the revenue to cover the direct costs of housing these inmates and transfers a portion to the Department of Correctional Education (DCE) for educational costs. Corrections also must transfer a portion of the revenues back to the General Fund of the Commonwealth as set out in the Appropriations Act. In fiscal year 2001, Corrections transferred \$3.2 million back to the General Fund, representing a decrease of almost \$18 million from the fiscal year 2000 transfer. The amount of the 2001 transfer decreased primarily because Corrections spent more of these funds to operate the facilities, thus, decreasing the amount available for transfer. The following table shows out-of-state inmate population and financial information through 2004.

	1999 (Actual)	2000 (Actual)	2001 (Actual)	2002 (Estimated)	2003 (Estimated)	2004 (Estimated)
Average Daily Out-of-State-Inmate Population	2,166	3,487	3,364	3,300	1,700	-
Total Out-of-State Inmate Revenue Earned	\$47,852,448	\$78,311,166	\$77,787,415	\$73,963,272	\$23,531,767	-
Total Amount Returned to the General Fund	\$9,539,721	\$21,383,807	\$3,200,000	\$2,168,000	None	None

Source: Department of Corrections Out of State Inmate Overview and Population Summary

Corrections obtained a \$12.5 million Treasury Loan in 1999 to cover start-up costs associated with housing out-of-state inmates. Corrections has repaid \$6.4 million of the loan, and plans on repaying the remainder in fiscal year 2003 at the anticipated termination of all out-of-state inmate contracts. The department expects these contracts to end by April 2003 as the states transfer their prisoners back to their own state prisons. Corrections relies solely on the out-of-state inmate revenues to cover all of the expenses for Sussex II, Wallens Ridge, and St. Brides, as well as additional expenses directly associated with housing the inmates. With the termination of these contracts, Corrections will be unable to rely on this as a revenue source and could require additional general funds to cover the expenses currently supported with the out-of-state inmate revenues.

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

During fiscal year 2001, Corrections had an average daily population of 25,486 inmates in 27 of its major correctional centers. These facilities operate at various security levels ranging from minimum (level 1) to super-maximum (level 6). The Central Office establishes operating budgets for the correctional centers and maintains oversight through regional offices. Each correctional center operates as a separate agency with the Warden having primary responsibility for administering the facility's operating budget. The Department of Correctional Education, a separate agency, administers inmate education programs for the facilities and accounts for these costs. The tables on pages 6 through 12 compare operating and other costs for the major correctional centers. The tables do not include the costs of the privately operated facility. We discuss this facility in detail in the section "Prison Privatization."

As noted in the tables, the per diem for operating costs range from \$39 to \$165 for the five levels of security with an average per diem of \$57 for all facilities. Operating costs do not include debt service, maintenance reserve, regional office administration, and administrative costs. Marion Correctional Treatment Center has the highest per diem cost of the major institutions. Most of Marion's inmates are mentally ill resulting in high medical costs and a low inmate-to-staff ratio. Powhatan has the next highest per diem rate of

\$91 per inmate. Powhatan has a larger medical facility than many facilities and other facilities transfer prisoners here for certain medical services. Also, many minimum-security facilities have the highest security costs because these prisons are the oldest and require the most manpower to secure and maintain. Super-maximum-security facilities house the most violent inmates with the highest security risk increasing their security costs.

	Red Onion Correctional Center <u>Security Level 6</u>	Wallen's Ridge Correctional Center <u>Security Level 6</u>	Sussex I Correctional Center <u>Security Level 5</u>	Sussex II Correctional Center <u>Security Level 5</u>
Average Daily Population	955	950	1,151	1,167
<u>Department of Corrections Expenses</u>				
Personal Services	\$ 15,182,887	\$ 15,448,186	\$ 16,713,969	\$ 16,100,145
Contractual Services	142,729	185,453	506,284	384,629
Supplies and Materials	910,619	912,934	1,479,117	1,179,493
Medical and Clinical Services	2,272,975	1,854,999	2,497,327	2,499,185
Food and Dietary Services	1,184,283	1,064,736	1,394,947	1,667,182
Transfer Payments	12,660	61,548	110,338	103,310
Continuous Charges	1,108,518	987,907	2,981,087	480,536
Property and Improvement	2,208	-	-	-
Plant and Improvement		128,616	-	-
Equipment	<u>52,140</u>	<u>216,151</u>	<u>58,565</u>	<u>193,819</u>
Total	<u>20,869,019</u>	<u>20,860,530</u>	<u>25,741,634</u>	<u>22,608,299</u>
<u>Department of Correctional Education Expenses</u>				
Education Expense	<u>410,439</u>	<u>377,917</u>	<u>429,470</u>	<u>610,800</u>
Total Expenses	<u>\$ 21,279,458</u>	<u>\$ 21,238,447</u>	<u>\$ 26,171,104</u>	<u>\$ 23,219,099</u>
<u>Per Capita Expenses</u>				
Department of Corrections	\$ 21,852	\$ 21,958	\$ 22,365	\$ 19,373
Department of Correctional Education	<u>430</u>	<u>398</u>	<u>373</u>	<u>523</u>
Total Per Capita Expenses	<u>\$ 22,282</u>	<u>\$ 22,356</u>	<u>\$ 22,738</u>	<u>\$ 19,896</u>
<u>Per Diem Expenses</u>				
Department of Corrections	\$ 59.86	\$ 60.15	\$ 61.27	\$ 53.07
Department of Correctional Education	<u>1.17</u>	<u>1.09</u>	<u>1.02</u>	<u>1.43</u>
Total Per Diem Expenses	<u>\$ 61.03</u>	<u>\$ 61.24</u>	<u>\$ 62.29</u>	<u>\$ 54.50</u>

	Keen Mountain Correctional Center	Nottoway Correctional Center	Augusta Correctional Center	Brunswick Correctional Center
	<u>Security Level 4</u>	<u>Security Level 4</u>	<u>Security Level 3 and 4</u>	<u>Security Level 3</u>
Average Daily Population	835	1,296	1,121	803
Department of Corrections Expenses				
Personal Services	\$ 11,541,722	\$ 19,471,101	\$ 16,176,233	\$ 16,117,192
Contractual Services	112,863	408,470	210,496	165,530
Supplies and Materials	983,297	1,117,704	947,620	1,055,280
Medical and Clinical Services	783,552	1,355,637	1,120,267	1,248,392
Food and Dietary Services	1,007,478	1,525,215	1,430,191	1,217,692
Transfer Payments	13,406	14,856	9,661	28,229
Continuous Charges	998,848	542,543	659,131	468,963
Property and Improvement	19,635	2,776	236,278	4,003
Plant and Improvement	12,200	9,749	-	14,790
Equipment	<u>142,435</u>	<u>224,258</u>	<u>313,594</u>	<u>352,405</u>
Total	<u>15,615,436</u>	<u>24,672,309</u>	<u>21,103,471</u>	<u>20,672,476</u>
Department of Correctional Education Expenses				
Education Expense	<u>437,916</u>	<u>689,718</u>	<u>490,347</u>	<u>767,219</u>
Total Expenses	<u>\$ 16,053,352</u>	<u>\$ 25,362,027</u>	<u>\$ 21,593,818</u>	<u>21,439,695</u>
Per Capita Expenses				
Department of Corrections	\$ 18,701	\$ 19,037	\$ 18,826	\$ 25,744
Department of Correctional Education	<u>524</u>	<u>532</u>	<u>437</u>	<u>955</u>
Total Per Capita Expenses	<u>\$ 19,225</u>	<u>\$ 19,569</u>	<u>\$ 19,263</u>	<u>\$ 26,699</u>
Per Diem Expenses				
Department of Corrections	\$ 51.23	\$ 52.15	\$ 51.57	\$ 70.53
Department of Correctional Education	<u>1.43</u>	<u>1.45</u>	<u>1.19</u>	<u>2.61</u>
Total Per Diem Expenses	<u>\$ 52.66</u>	<u>\$ 53.60</u>	<u>\$ 52.76</u>	<u>\$ 73.14</u>

	Buckingham Correctional Center <u>Security Level 3</u>	Fluvanna Correctional Center <u>Security Level 3</u>	Greensville Correctional Center <u>Security Level 3</u>	Powhatan Correctional Center <u>Security Level 3</u>
Average Daily Population	933	1,020	3,070	790
Department of Corrections Expenses				
Personal Services	\$ 14,492,448	\$ 14,353,881	\$ 36,476,734	\$ 16,994,347
Contractual Services	250,239	382,301	813,237	289,386
Supplies and Materials	885,411	1,097,161	3,033,481	1,323,291
Medical and Clinical Services	1,152,220	5,192,706	9,076,536	4,638,311
Food and Dietary Services	1,147,919	916,608	4,600,787	1,377,756
Transfer Payments	5,470	49,017	209,323	9,831
Continuous Charges	755,049	579,177	1,858,521	304,397
Property and Improvement	4,949	-	-	-
Plant and Improvement	-	19,641	-	50,920
Equipment	<u>232,208</u>	<u>344,481</u>	<u>419,350</u>	<u>698,180</u>
Total	<u>18,925,913</u>	<u>22,934,973</u>	<u>56,487,969</u>	<u>25,686,419</u>
Department of Correctional Education Expenses				
Education Expense	<u>501,318</u>	<u>1,359,166</u>	<u>1,614,924</u>	<u>567,370</u>
Total Expenses	<u>\$ 19,427,231</u>	<u>\$ 24,294,139</u>	<u>\$ 58,102,893</u>	<u>\$ 26,253,789</u>
Per Capita Expenses				
Department of Corrections	\$ 20,285	\$ 22,485	\$ 18,400	\$ 32,514
Department of Correctional Education	<u>537</u>	<u>1,333</u>	<u>526</u>	<u>718</u>
Total Per Capita Expenses	<u><u>\$ 20,822</u></u>	<u><u>\$ 23,818</u></u>	<u><u>\$ 18,926</u></u>	<u><u>\$ 33,232</u></u>
Per Diem Expenses				
Department of Corrections	\$ 55.57	\$ 61.60	\$ 50.41	\$ 89.07
Department of Correctional Education	<u>1.47</u>	<u>3.65</u>	<u>1.44</u>	<u>1.96</u>
Total Per Diem Expenses	<u><u>\$ 57.04</u></u>	<u><u>\$ 65.25</u></u>	<u><u>\$ 51.85</u></u>	<u><u>\$ 91.03</u></u>

	Southampton Correctional Center <u>Security Level 3</u>	Bland Correctional Center <u>Security Level 2</u>	Coffeewood Correctional Center <u>Security Level 2</u>	Deep Meadow Correctional Center <u>Security Level 2</u>
Average Daily Population	616	610	1,193	939
Department of Corrections Expenses				
Personal Services	\$ 10,292,346	\$ 12,248,553	\$ 11,841,269	\$ 12,707,040
Contractual Services	396,797	163,291	283,485	143,935
Supplies and Materials	1,438,532	844,301	1,166,347	1,015,735
Medical and Clinical Services	626,808	821,950	1,096,966	1,159,097
Food and Dietary Services	936,390	791,204	1,301,421	1,151,230
Transfer Payments	3,477	7,439	10,543	6,543
Continuous Charges	316,409	284,644	518,865	244,584
Property and Improvement	5,127	8,835	17,180	43,917
Plant and Improvement	-	-	-	-
Equipment	<u>566,822</u>	<u>261,220</u>	<u>151,334</u>	<u>570,681</u>
Total	<u>14,582,708</u>	<u>15,431,437</u>	<u>16,387,410</u>	<u>17,042,762</u>
Department of Correctional Education Expenses				
Education Expense	<u>951,235</u>	<u>566,049</u>	<u>632,225</u>	<u>494,128</u>
Total Expenses	<u>\$ 15,533,943</u>	<u>\$ 15,997,486</u>	<u>\$ 17,019,635</u>	<u>\$ 17,536,890</u>
Per Capita Expenses				
Department of Corrections	\$ 23,673	\$ 25,297	\$ 13,736	\$ 18,150
Department of Correctional Education	<u>1,544</u>	<u>928</u>	<u>530</u>	<u>526</u>
Total Per Capita Expenses	<u>\$ 25,217</u>	<u>\$ 26,225</u>	<u>\$ 14,266</u>	<u>\$ 18,676</u>
Per Diem Expenses				
Department of Corrections	\$ 64.85	\$ 69.30	\$ 37.63	\$ 49.72
Department of Correctional Education	<u>4.23</u>	<u>2.54</u>	<u>1.45</u>	<u>1.44</u>
Total Per Diem Expenses	<u>\$ 69.08</u>	<u>\$ 71.84</u>	<u>\$ 39.08</u>	<u>\$ 51.16</u>

	Deerfield Correctional Center <u>Security Level 2</u>	Dillwyn Correctional Center <u>Security Level 2</u>	Haynesville Correctional Center <u>Security Level 2</u>	Indian Creek Correctional Center <u>Security Level 2</u>
Average Daily Population	464	1,056	1,080	903
Department of Corrections Expenses				
Personal Services	\$ 7,469,621	\$ 11,069,072	\$ 13,356,488	\$ 11,369,046
Contractual Services	72,962	177,794	239,174	234,621
Supplies and Materials	483,273	890,705	1,004,292	1,123,048
Medical and Clinical Services	827,566	1,003,197	1,279,165	872,041
Food and Dietary Services	693,437	1,100,780	1,419,095	1,138,668
Transfer Payments	1,734	17,036	8,848	38,800
Continuous Charges	116,762	492,635	408,755	339,140
Property and Improvement	801	-	3,800	-
Plant and Improvement	-	-	-	-
Equipment	<u>72,234</u>	<u>164,149</u>	<u>146,915</u>	<u>112,662</u>
Total	<u>9,738,390</u>	<u>14,915,368</u>	<u>17,866,532</u>	<u>15,228,026</u>
Department of Correctional Education Expenses				
Education Expense	<u>408,198</u>	<u>524,498</u>	<u>646,540</u>	<u>600,548</u>
Total Expenses	<u>\$ 10,146,588</u>	<u>\$ 15,439,866</u>	<u>\$ 18,513,072</u>	<u>\$ 15,828,574</u>
Per Capita Expenses				
Department of Corrections	\$ 20,988	\$ 14,124	\$ 16,543	\$ 16,864
Department of Correctional Education	<u>880</u>	<u>497</u>	<u>599</u>	<u>665</u>
Total Per Capita Expenses	<u>\$ 21,868</u>	<u>\$ 14,621</u>	<u>\$ 17,142</u>	<u>\$ 17,529</u>
Per Diem Expenses				
Department of Corrections	\$ 57.50	\$ 38.69	\$ 45.32	\$ 46.20
Department of Correctional Education	<u>2.41</u>	<u>1.36</u>	<u>1.64</u>	<u>1.82</u>
Total Per Diem Expenses	<u>\$ 59.91</u>	<u>\$ 40.05</u>	<u>\$ 46.96</u>	<u>\$ 48.02</u>

	James River Correctional Center Security Level 2	Lunenburg Correctional Center Security Level 2	Mecklenburg Reclassification Security Level 2	St. Brides Correctional Center Security Level 2
Average Daily Population	690	1,144	706	582
Department of Corrections Expenses				
Personal Services	\$ 11,433,097	\$ 11,758,280	\$ 12,882,515	\$ 8,010,677
Contractual Services	208,133	165,431	92,900	202,904
Supplies and Materials	259,744	877,745	702,760	1,001,079
Medical and Clinical Services	541,768	1,352,139	974,910	394,750
Food and Dietary Services	922,341	1,231,926	1,105,084	885,254
Transfer Payments	3,440	37,714	7,667	1,704
Continuous Charges	339,365	977,348	1,070,983	312,734
Property and Improvement	-	4,648	250	129,612
Plant and Improvement	-	-	-	-
Equipment	<u>405,242</u>	<u>141,652</u>	<u>97,824</u>	<u>281,512</u>
Total	<u>14,113,130</u>	<u>16,546,883</u>	<u>16,934,893</u>	<u>11,220,226</u>
Department of Correctional Education Expenses				
Education Expense	<u>491,733</u>	<u>668,402</u>	<u>255,384</u>	<u>1,139,250</u>
Total Expenses	<u>\$ 14,604,863</u>	<u>\$ 17,215,285</u>	<u>\$ 17,190,277</u>	<u>\$ 12,359,476</u>
Per Capita Expenses				
Department of Corrections	\$ 20,454	\$ 14,464	\$ 23,987	\$ 19,279
Department of Correctional Education	<u>713</u>	<u>584</u>	<u>362</u>	<u>1,957</u>
Total Per Capita Expenses	<u>\$ 21,167</u>	<u>\$ 15,048</u>	<u>\$ 24,349</u>	<u>\$ 21,236</u>
Per Diem Expenses				
Department of Corrections	\$ 56.03	\$ 39.62	\$ 65.71	\$ 52.81
Department of Correctional Education	<u>1.95</u>	<u>1.60</u>	<u>0.99</u>	<u>5.36</u>
Total Per Diem Expenses	<u>\$ 57.98</u>	<u>\$ 41.22</u>	<u>\$ 66.70</u>	<u>\$ 58.17</u>

	Staunton Correctional Center Security Level 2	Virginia Correctional Center for Women Security Level 2	Marion Correctional Center Security Level 2	ALL MAJOR Correctional Centers
Average Daily Population	750	448	214	25,486
Department of Corrections Expenses				
Personal Services	\$ 11,567,086	\$ 7,982,821	\$ 8,918,527	\$ 371,975,282
Contractual Services	199,990	297,977	116,198	6,847,208
Supplies and Materials	1,099,976	739,194	397,811	27,969,947
Medical and Clinical Services	1,303,514	1,664,345	1,908,093	49,498,415
Food and Dietary Services	1,084,631	821,505	978,365	34,096,125
Transfer Payments	2,274	5,507	-	780,373
Continuous Charges	424,200	125,814	167,491	17,864,411
Property and Improvement	2,563	-	-	486,580
Plant and Improvement	-	15,059	-	250,974
Equipment	<u>175,158</u>	<u>376,030</u>	<u>204,065</u>	<u>6,978,084</u>
Total	<u>15,862,392</u>	<u>12,008,252</u>	<u>12,690,550</u>	<u>516,747,399</u>
Department of Correctional Education Expenses				
Education Expense	<u>797,479</u>	<u>859,609</u>	<u>191,207</u>	<u>17,483,088</u>
Total Expenses	<u>\$ 16,659,871</u>	<u>\$ 12,867,861</u>	<u>\$ 12,881,757</u>	<u>\$ 534,230,487</u>
Per Capita Expenses				
Department of Corrections	\$ 21,150	\$ 26,804	\$ 59,302	\$ 20,276
Department of Correctional Education	<u>1,063</u>	<u>1,919</u>	<u>893</u>	<u>686</u>
Total Per Capita Expenses	<u>\$ 22,213</u>	<u>\$ 28,723</u>	<u>\$ 60,195</u>	<u>\$ 20,962</u>
Per Diem Expenses				
Department of Corrections	\$ 57.94	\$ 73.43	\$ 162.47	\$ 55.55
Department of Correctional Education	<u>2.91</u>	<u>5.25</u>	<u>2.44</u>	<u>1.87</u>
Total Per Diem Expenses	<u>\$ 60.85</u>	<u>\$ 78.68</u>	<u>\$ 164.91</u>	<u>\$ 57.42</u>

PRISON PRIVATIZATION

Corrections contracted with a private corporation, Corrections Corporation of American (CCA), for the construction and operation of a medium-security prison with 1,536 general population beds, and 42 segregation beds. The facility, located in Lawrenceville, opened in March 1998. The contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The average daily population for fiscal year 2001 was 1,571. The facility houses only males inmates and does not have a major medical facility.

The contract establishes a per diem rate of \$35.20 for the first 1,425 inmates and \$13.97 for each inmate above 1,425 during the first year, which began on March 23, 1998. The contract adjusts the per diem rates on March 23 of each of the four subsequent years with rates ranging from \$31.08 to \$33.96 for the first 1,425 inmates and \$14.39 to \$15.72 for each inmate above 1,425. The private prison's per diem rate covers all operating costs of the facility with the exception of the transportation costs of transferring the inmates in and out of the facility, depreciation expense, and debt service costs. The per diem costs also include administration costs from CCA headquarters as well as the facility.

To ensure CCA meets all contract requirements, Corrections has a full-time Liaison Officer on-site. The Liaison Officer monitors daily activities and coordinates issues and problems between Corrections and the prison staff. The Liaison Officer reports directly to the Regional Director for Corrections' Central Region, who provides additional oversight, much as he does for the Corrections' operated facilities in the Central Region. The Liaison Officer also works closely with Corrections' Private Prison Administrator, who handles contractual issues and oversight at Corrections' central office.

Originally, the Department of Correctional Education (DCE) was to provide vocational training and academic education, which are functions and responsibilities of DCE. DCE decided to privatize the academic education and vocational training within Lawrenceville Correctional Center, and amended the original contract for CCA to begin providing educational services January 1, 1999. CCA established inmate work, vocational, and educational programs. DCE monitors the educational program requirements.

CCA obtained American Corrections Association (ACA) accreditation during November 1999. ACA is a national private non-profit organization that establishes standards for correctional institutions. Most Corrections' facilities do not have ACA accreditation because they cannot meet all of the accreditation standards. Specifically, Corrections' older facilities cannot meet the construction requirements. However, Corrections has its own institutional standards for its facilities. CCA must also meet Corrections' institutional standards. Corrections performed an institutional compliance audit in March 1999 for Lawrenceville. Due to 63 deficiencies noted during the compliance audit, Corrections placed CCA on probationary certification. Based on the results of a follow-up audit in August 2000, Lawrenceville received an unconditional certification.

The Appropriations Act for the 2000-2002 biennium directed Corrections to evaluate the long-term cost and effectiveness of the privately-operated facility. The evaluation was to include the facility's compliance with state and national professional standards, the effectiveness of education and treatment programs, the overall security of the facility, the conditions under which prisoners are incarcerated, the maintenance of the physical facility, and the cost effectiveness of the facility's operating procedures. The Appropriations Act required completion of the report to the Secretary of Public Safety by September 30, 2001. Corrections did not perform this evaluation and this issue is included in the section entitled "Internal Control and Compliance Findings and Recommendations."

INFORMATION SYSTEMS

Corrections provides information technology services through 27 different applications and systems operating on a number of different hardware platforms. During fiscal 2001, Corrections began working on implementing an enterprise-wide system to replace, integrate, and web-enable the 27 applications/systems in use. The system, the Integrated Correctional Information System (ICIS), has two parts: Offender Based Management System (OMS) and the Enterprise Resource Planning (ERP).

Corrections is working with a vendor, SAP, to develop the OMS although Corrections has not signed a contract to purchase the completed software. SAP has asked three states including Virginia to participate in the development of OMS with the understanding that each state could purchase the completed software at a discounted price. In March 2001, Corrections purchased 5,250 user licenses from SAP for financial, human resources, and manufacturing software at a cost of \$4 million.

Corrections has delayed implementation of these modules because of budget constraints that do not allow Corrections to pay for the modification to the software and acquire the necessary hardware and networks. The total cost of implementing the system with the hardware has an estimated cost of \$90 million. In the meantime, Corrections will continue to pay the annual maintenance fee of \$680,000. Corrections will need these licenses if they purchase the Offender Based Management System. Corrections is currently looking for other funding sources, including federal grants.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Follow Appropriation Act Requirements

Corrections did not follow an Appropriation Act requirement directing them to evaluate and report on the long-term cost and effectiveness of their privately-operated facility. Chapters 935 and 1073 of the Appropriations Act required an evaluation of the Lawrenceville Correctional Center. The evaluation was to include the facility's compliance with state and national professional standards, the effectiveness of education and treatment programs, the overall security of the facility, the conditions under which prisoners are incarcerated, the maintenance of the physical facility, and the cost effectiveness of the facility's operating procedures. In addition, as part of the evaluation, Corrections was required to assess whether the private facility can also reduce their operating cost without compromising security and public safety. The Appropriations Act stipulated that Corrections submit the report based on their evaluation to the Secretary of Public Safety by September 30, 2001. Corrections did not perform the evaluation or submit the required report. Corrections management should ensure they meet the requirement enacted by the General Assembly in the Appropriations Acts.

Improve Internal Controls Over the Virginia Sickness and Disability Program

Corrections needs to improve procedures over the Virginia Sickness and Disability Program (VSDP). We reviewed a sample of 15 short-term disability payments and found the following errors.

- VSDP claims were not processed timely for eight employees; however, we were not able to determine if Corrections was solely responsible for the delays, or whether the employee or CORE, the state's program administrator, may have contributed to the delay.
- Corrections misclassified five employee payments totaling \$3,804 as regular pay rather than VSDP payments.
- Four employees had their pay calculated incorrectly causing an underpayment.

Corrections should improve its internal controls over the VSDP Program to improve the accuracy and recording of VSDP payments.

Ensure Proper Recording and Tracking of Leases

As reported in our prior year's report, we found several errors in Corrections' recording and tracking of leases. Specifically, we found errors in lease payments recorded in incorrect object codes, changes in leases not updated at all or not updated timely, and not classifying payments under lease agreements when required. The internal control weaknesses arose from poor communication between central office and institution personnel and not following procedures for properly recording leases and lease payments. Corrections needs to follow procedures and improve controls to ensure that agency personnel promptly communicate all changes in leases to central office.

Promptly Delete Terminated Employees Access

Corrections' Security Officers did not promptly delete access to the Commonwealth Integrated Personnel and Payroll System (CIPPS) for eight employees upon their termination. Of the eight employees deleted during the audit period, CIPPS access deletion dates ranged from two months to ten years after termination dates. Commonwealth Accounting Policies and Procedures (CAPP) requires the CIPPS Security Officer ensure that adequate internal controls exist to prevent unauthorized access to CIPPS. Without proper controls over system access, Corrections risks unnecessary access to the system. Corrections should improve its procedures to ensure the timely deletion of employees' access to CIPPS when they terminate employment.

Delete Multiple Access Logon Identifications

Corrections failed to review the Benefit Eligibility System (BES) user identifications and delete unused identifications or those identifications assigned to more than one user. As a result, Corrections allowed six employees to have more than one access logon identification to BES, the official healthcare benefit system. Without proper controls over system access, Corrections risks unnecessary access to the system. Corrections should review logon identifications periodically to ensure that each individual with BES access has only one logon identification.

Properly Record Accounts Payable

Corrections incorrectly recorded two of twenty vouchers tested as fiscal year 2001 accounts payable vouchers. One voucher represented payment for goods or services received for fiscal year 2002. The other voucher represented payments for goods that were purchased in both fiscal year 2001 and fiscal year 2002, with the majority being purchased in fiscal year 2002. As a result, Corrections overstated their fiscal year end accounts payable by \$53,000.

State agencies are required to record all vouchers processed in the months of July and August, with either a "P" or an "N" to indicate whether or not it is payable at year end. Corrections should improve procedures to ensure that all vouchers processed for the months of July and August are properly coded in CARS. Corrections should also ensure that they are consistently following their procedures for vouchers that cover two fiscal years.

March 13, 2002

The Honorable Mark R. Warner
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 Corrections** and **Virginia Parole Board** for the year ended June 30, 2001. We will issue a separate report on Virginia Correctional Enterprises. 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. We also reviewed the Department's corrective actions of the audit findings from prior year reports.

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, as 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:

Revenue
Expenditures
Contract Management

Inmate Trust Funds
Commissary Funds
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 and Corrections' "Annual Management Information Summaries Report."

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. 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. Reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions is 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, which are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations."

Corrections has not taken adequate corrective action with respect to the previously reported finding entitled "Ensure Proper Recording and Tracking of Leases." This is included in section entitled "Internal Control and Compliance Findings and Recommendations." We did not follow up on the prior year finding entitled "Improve Procedures over Small Purchase Charge Card Program" as part of this audit. The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 30, 2002.

AUDITOR OF PUBLIC ACCOUNTS

LCR:whb
whb:56

DEPARTMENT OF CORRECTIONS
Richmond, Virginia

Ronald J. Angelone, Director

Gene Johnson, Deputy Director
John Jabe, Deputy Director

Ted Link, Controller

Garey Conrad, Fiscal Director

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