

Washington State Auditor's Office
Accountability Audit Report

Department of Corrections

Audit Period
July 1, 2004 through June 30, 2005

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Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

March 31, 2006

Harold W. Clarke, Secretary
Department of Corrections
Olympia, Washington

Report on Accountability for Public Resources

Please find attached our report on the Department of Corrections' accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we perform an annual audit of the statewide basic financial statements as required by state law (RCW 43.09.310). We also annually audit federal programs administered by the state of Washington for compliance with federal laws and regulations. The results of these audits are published in reports issued by the Office of Financial Management.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Audit Summary

State of Washington Department of Corrections

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Department of Corrections for the period from July 1, 2004 through June 30, 2005.

We evaluated internal controls and performed audit procedures on the financial activities of the Agency. We also determined whether the Agency complied with state laws and regulations and its own policies and procedures. Our work focused on specific areas that have potential for noncompliance, misappropriation or misuse of public resources.

RESULTS

In most areas, the Agency complied with state laws and regulations and its own policies and procedures.

However, we noted certain matters that we communicated to Agency management. We appreciate the Agency's commitment to resolving those matters.

RELATED REPORTS

Our opinion on the state of Washington's basic financial statements is included in the state's Comprehensive Annual Financial Report. That report is issued by the Office of Financial Management in December of each year.

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management.

In addition to these reports, we issued four reports pursuant to the State Employee Whistleblower Act (RCW 42.40), which are available on our Web site.

CLOSING REMARKS

We appreciate the Agency's prompt attention to resolving prior audit issues. We also thank Agency management and personnel for their assistance and cooperation.

Description of the Agency

State of Washington Department of Corrections

ABOUT THE AGENCY

The Department of Corrections was created in 1981 by the Washington State Legislature. Prior to 1981, the Agency was a division of the Department of Social and Health Services. The Agency consists of the Office of the Secretary, the Office of Correctional Operations and the Office of Administrative Services. The Agency has 8,000 employees who administer and supervise more than 17,000 offenders housed in 15 institutions and 15 work release facilities. In addition, the Agency supervises over 29,000 offenders in the community through 92 field offices. In 2003, the Agency began renting beds in local jails and other jurisdictions to house overflow from the prisons. The Agency rents nearly 1,000 beds from other jurisdictions. The Agency's operating budget for fiscal year 2005 was \$642 million and its capital programs expenditures for the period was \$66 million.

The Agency also operates Correctional Industries, a business enterprise, at several of its institutions. Correctional Industries is committed to maintaining and expanding offender work/training programs which develop marketable job skills, instill and promote a positive work ethic among offender workers and reduce the tax burden of corrections.

The Secretary of the Agency is appointed by the Governor.

AUDIT HISTORY

We audit the Agency annually. The past five audits of the Agency have reported six findings. During that period, the number of findings has ranged from three in 2000 to one each in 2002, 2003 and 2004. These findings have since been resolved.

Audit Areas Examined

State of Washington Department of Corrections

In keeping with general auditing practices, we do not examine every portion of the Department of Corrections' financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas were examined during this audit period:

ACCOUNTABILITY FOR PUBLIC RESOURCES

We evaluated the Agency's accountability and compliance with certain state laws and regulations and its own policies in the following areas:

- Purchase of goods and services
- Inmate trust accounting
- Pharmacies
- Client service contracting

FINANCIAL

We perform an annual audit of the statewide basic financial statements as required by state law (RCW 43.09.310). These financial statements are included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management. The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity.

We tested the Agency's account balances and financial activity related to:

- Depreciable assets

FEDERAL PROGRAMS

Federal grant audit work is performed on a statewide basis, in accordance with the revised Single Audit Act. We select federal programs for audit using risk-based criteria set forth in the U.S. Office of Management and Budget Circular A-133.

There were no major federal programs at the Agency.

Status of Prior Audit Findings

State of Washington Department of Corrections

The status of findings contained in the prior year's audit report of the Department of Corrections is provided below:

1. **The Department of Corrections does not have sufficient internal controls over its pharmacy inventory to prevent or detect misappropriation or loss.**

Statewide Accountability Report, dated March 7, 2005

Background

The Agency operates pharmacies at its eight largest institutions. These pharmacies also serve the needs of inmates in the other correctional and pre-release facilities. We reviewed the Agency's internal controls over pharmaceutical inventory including purchasing, receiving, storage and distribution at five correction centers. We found weaknesses in controls over non-scheduled drug inventories, non-scheduled drugs held for destruction, scheduled drugs returned to the pharmacies and access to scheduled drugs. We also noted a lack of current policies and procedures, inadequate separation of duties in the ordering and receiving of drugs, and inadequate control over required federal reporting forms.

Status

The Agency took corrective action on all of the issues except for controls over non-controlled substances. The Agency has developed a corrective action plan for this area and is in the process of putting it in place. We are not repeating the finding.