



A Legislative Summary Document Regarding Department of Criminal Justice

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State Auditor's Observations

The Texas Department of Criminal Justice (TDCJ) has established procedures that should ensure that its Legislative Appropriations Request (LAR) is reasonably accurate. TDCJ's methods for estimating financial information and performance targets appear to be reasonable.

TDCJ reduced its appropriations request in its 2004–2005 LAR, primarily for the Contracted Temporary Capacity strategy, which is based on Criminal Justice Policy Council projections of a declining inmate population. This reduction totaled \$64.9 million for the biennium. The Criminal Justice Policy Council will provide updated population projections in January 2003 that could change the amount needed.

TDJC is carrying out a project to re-engineer business processes and applications that are related to the supervision and management of felons. This project has multiple phases of development. TDCJ has completed two earlier phases at a cost of \$14,470,539. In the two completed phases, TDCJ developed a road map for re-engineering, reviewed business processes, and redesigned systems to support the re-engineering effort. The phase that is currently underway entails the implementation of re-engineering business processes that are associated with parole supervision. The \$28,458,892 cost estimate for the current phase is lower than the \$31,435,650 cost estimate that TDCJ reported last year, but progress on the current phase is behind schedule by a few months. The next planned project phase envisions automation of incarceration-related management processes and is subject to available funding in fiscal years 2004 and 2005. Based on our review of the Criminal Justice Information System (CJIS), we believe that, overall, controls to ensure the completeness and accuracy of CJIS data are stronger today than they were five years ago. However, TDCJ must make agency-wide technology improvements to correct weaknesses affecting its portion of CJIS.

TDCJ has an adequate system to ensure that its employees use procurement cards appropriately. TDCJ's system is a good example of how agencies can use post-payment procurement audits to mitigate the risks associated with using procurement cards.

Prepared for the 78th Legislature
by the State Auditor's Office

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This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

Department of Criminal Justice

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Financial Profile

Revenue Projections

Budgeting personnel used the average of annualized current year revenues and the projected revenues for the second year of the biennium to develop the estimates for the 2004–2005 Legislative Appropriations Request (LAR). The Department of Criminal Justice (TDCJ) estimates revenues from two major sources: commissary sales (the sale of goods to inmates) and Texas Correctional Industries (TCI) sales (the sale of products manufactured within state institutions). TDCJ is appropriated the revenues generated from these sales. TDCJ's estimates for fiscal year 2001 for both commissary and TCI sales were in line with actual sales for fiscal year 2001. Using the same methodology should allow for a close approximation of the actual sales activity for subsequent years.

TDCJ receives refunds from local community supervision and corrections departments and is appropriated these funds by Rider 42 (page V-19, General Appropriations Act, 77th Legislature) to Basic Supervision, Diversion Programs, Community Corrections, and Substance Abuse Treatment strategies. TDCJ's LAR estimates indicate that refunds for appropriation year 2002 could exceed the appropriation amount (\$12.1 million) by as much as \$4 million, for a total of approximately \$16.1 million in refunds.

Expenditure Analysis

TDCJ bases its expenditure projections on historical trending methods that vary according to the specific type of expenditure. TDCJ has indicated that it is estimating lower expenditures for the 2004–2005 LAR because of the Criminal Justice Policy Council (CJPC) projections of a declining inmate population. Based on the CJPC projections, fewer contract jail beds will be needed under the Contracted Temporary Capacity strategy (biennial reduction of \$58.1 million). In addition, the projections for services under the Parole Supervision and Community Corrections Basic Supervision strategies result in lower expenditure projections (biennial reductions of \$3.5 million and \$3.3 million, respectively). The Criminal Justice Policy Council will provide updated projections of inmate populations for the upcoming legislative session.

The table below shows TDCJ's expenditures by Comptroller of Public Accounts category as reported by TDCJ in the Uniform Statewide Accounting System (USAS) for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how TDCJ has spent its funds. We obtained explanations from TDCJ for fluctuations across years that appeared unusual.

| Expenditures by Comptroller USAS Category Groups | | | |
|--|-------------------------|-------------------------|-------------------------|
| Comptroller USAS Category Group | Appropriation Year 2000 | Appropriation Year 2001 | Appropriation Year 2002 |
| Salaries and Wages ^a | \$ 1,143,978,341 | \$ 1,164,988,965 | \$ 1,225,370,308 |
| Professional Services and Fees | 332,834,978 | 343,082,285 | 352,825,598 |
| Other Expenditures | 268,986,820 | 274,367,211 | 256,278,493 |
| Intergovernmental Payments | 209,629,390 | 218,850,613 | 211,401,363 |
| Supplies and Materials | 182,738,821 | 188,948,244 | 173,990,124 |
| Interfund Transfers/Other | 89,230,712 | 68,942,903 | 69,918,439 |
| Cost of Goods Sold | 87,247,355 | 84,564,269 | 87,067,335 |
| Employee Benefits (Note A) | 84,277,140 | 298,834,055 | 343,296,747 |
| Communications and Utilities | 83,587,907 | 105,941,073 | 83,493,812 |
| Capital Outlay | 29,626,315 | 29,425,189 | 18,570,617 |
| Rentals and Leases | 18,073,791 | 19,009,381 | 20,595,981 |

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| Expenditures by Comptroller USAS Category Groups | | | |
|--|-------------------------|-------------------------|-------------------------|
| Comptroller USAS Category Group | Appropriation Year 2000 | Appropriation Year 2001 | Appropriation Year 2002 |
| Repairs and Maintenance | 9,731,521 | 8,654,901 | 11,471,102 |
| Travel | 7,597,211 | 7,491,938 | 8,745,033 |
| Public Assistance Payments | 5,232,282 | 5,544,025 | 4,278,161 |
| Claims and Judgments | 1,420,134 | 1,325,037 | 1,147,820 |
| Printing and Reproduction | 370,792 | 314,172 | 323,106 |
| Payment on Principal - Debt Service | 111,472 | 0 | 0 |
| Interest/Prompt Payment Penalties | 60,543 | 29,605 | 24,936 |
| Total Expenditures | \$2,554,735,525 | \$2,820,313,866 | \$2,868,798,975 |

^a The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A – The fluctuation in employee benefits occurred because of a change in process. In previous years, the Employees Retirement System (ERS) paid for the State’s portion of certain employee benefits for all agencies. In fiscal year 2000, agencies using the Uniform Statewide Payroll System (USPS) received the funding and paid the employee benefits directly. Because TDCJ did not use USPS, the benefits were still paid by ERS in fiscal year 2000. The process changed in fiscal year 2001, and all agencies received the funding and paid the employee benefits directly. (Note: The expenditures for employee benefits are not part of the amount that is appropriated to TDCJ.)

Suspense Accounts

Entities typically use suspense accounts to record receipts for which the appropriate accounting treatment cannot be immediately determined. This is the case for approximately 40 percent of the \$72,373 in TDCJ’s suspense account as of July 31, 2002. However, \$38,494 of the amount in suspense was attributable to prepaid employee purchases from Texas Correctional Industries. It appears that TDCJ regularly reconciles this account.

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

An Audit Report on Procurement Card Processes and Controls

(Report No. 02-022, February 2002)

The Texas Department of Criminal Justice (TDCJ) has an adequate system to ensure that its employees use procurement cards appropriately. While there are opportunities for improvement, TDCJ’s system is a good example of how agencies can use postpayment audits to mitigate the risks associated with using procurement cards.

| Status of Audit Recommendations as of November 30, 2002 (unaudited) | |
|---|----------|
| TDCJ has reported the following: | |
| Implemented | 2 |
| Partially implemented | 1 |
| Total recommendations | 3 |

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State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001¹

(February 2002)

Reporting

The Texas Department of Criminal Justice (TDCJ) identified an error in the total salaries for correctional laundry personnel contained on the application for annual State Criminal Alien Assistance Program (SCAAP) funding. The audit procedures performed on the application for the fiscal year 2001 SCAAP funds verified this error in the amount listed for total salaries for correctional laundry personnel. The amount of salaries reported in the application was overstated by approximately \$90 million. This error in the application data caused the calculated SCAAP award amount for fiscal year 2001 to be incorrect because erroneous data was used in the United States Department of Justice award formulas.

Status of Audit Recommendations as of November 30, 2002

KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.

An Audit Report on the Accuracy of Criminal Justice Information System Data at the Department of Public Safety and the Department of Criminal Justice

(Report No. 02-013, December 2001)

Based on our review of the Criminal Justice Information System (CJIS), we believe that, overall, controls to ensure the completeness and accuracy of CJIS data are stronger today than they were five years ago. However, the Texas Department of Criminal Justice (TDCJ) must make agency-wide technology improvements to correct weaknesses affecting its portion of CJIS.

Our previous audit work at TDCJ revealed that many basic controls needed to ensure the reliability of CJIS data were missing. These missing controls related to project management and the capture of statutorily required data elements. During this audit, we found that TDCJ had corrected some of the prior weaknesses. However, the Corrections Tracking System (CTS) as a whole still lacks some basic controls to capture and store reliable data. TDCJ should continue working to address all requirements of the Texas Code of Criminal Procedure, Chapter 60, and should continue to strengthen information technology controls that will improve CJIS data.

Status of Audit Recommendations¹ as of November 30, 2002 (unaudited)

TDCJ has reported the following:

| | |
|------------------------------|----------|
| Implemented | 1 |
| Partially implemented | 1 |
| Total recommendations | 2 |

¹ From management letter No. 02-306

An Audit Report on Department of Criminal Justice Standards and Reporting Related to Retirement Credit for Custodial Officers

(Report No. 02-012, December 2001)

Based on our testing, we have a high level of confidence that the Texas Department of Criminal Justice (TDCJ) is accurately reporting certifications of custodial officer service credit to the Employees Retirement System (ERS). Our tests of 29 randomly selected recent retirees indicated that the employees who TDCJ certified for the retirement incentive met the criteria for eligibility. In addition, policies for certification of custodial officer service credit comply with applicable statutes.

¹ Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345.

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An Audit Report on 19 Agencies' Compliance With Historically Underutilized Business Requirements

(Report No. 01-035, August 2001)

We determined that the Texas Department of Criminal Justice (TDCJ) made a "good-faith effort" to comply with the Texas Administrative Code (TAC) and the Texas Government Code. However, TDCJ did not fully comply with one provision of historically underutilized business (HUB) requirements as defined in TAC, Chapter 111, and Texas Government Code, Chapter 2161. Notably, TDCJ was the only agency that fully implemented the mentor protégé program.

| Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements - Fiscal Year 2000 | | | | |
|---|---------------------------|--|---------------------------|---|
| Compliance Requirement | | | | Did the Entity Make a "Good-Faith Effort"? ^a |
| Planning | Outreach | Reporting | Subcontracting | |
| No material noncompliance | No material noncompliance | Under-reported the non-treasury funds paid to subcontractors (TAC, Section 111.16) | No material noncompliance | Yes |

^a The State Auditor's Office, in consultation with the General Services Commission, determined that an entity did not make a "good-faith effort" if it had noncompliance in at least three of the four basic HUB areas: planning, outreach, reporting, and subcontracting. (The General Services Commission was abolished effective September 1, 2001, and the newly created Texas Building and Procurement Commission subsequently assumed most of its responsibilities.)

Status of Corrective Action: In December 2002, TDCJ reported that it had implemented the one recommendation we made in this audit report. This information has not been audited.

An Audit Report on Correctional Officer Staffing at the Department of Criminal Justice

(Report No. 01-019, February 2001)

The Texas Department of Criminal Justice's (TDCJ) shortage of correctional officers is increasing. The number of new hires cannot meet the demand created by increased attrition, the addition of new positions, and correctional officers transferring to other positions. As a result of the shortage, TDCJ has reduced program operations, relied on overtime to fill the most critical positions, and decreased in-service training hours. If this situation continues, it may affect the continued safety of staff members and inmates.

| Status of Audit Recommendations as of November 30, 2002 (unaudited) | |
|---|----------|
| TDCJ has reported the following: | |
| Implemented | 7 |
| Partially implemented | 2 |
| Total recommendations | 9 |

The number of injuries to correctional officers and inmates has not increased as the correctional officer shortage has grown. Among correctional officers, the number of injuries decreased slightly, from 1,702 injuries to 1,692 injuries. While the number of inmate injuries requiring medical treatment decreased significantly, the number of assault-related injuries to inmates increased by 11 percent. Forty-three percent of the most serious assault-related injuries to inmates were self-inflicted.

TDCJ initiated some retention efforts as a result of an Internal Audit Division report, but it could explore other options to increase retention of experienced correctional officers. Differential pay, childcare and transportation, expansion of the exit interview process, and establishment of a standard overtime policy are some options to consider. We estimate that the cost of correctional officer turnover in fiscal year 2000 exceeded \$40 million.

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Performance Management

Performance Indicators Used by Management

To achieve its mission, goals, and objectives, the Texas Department of Criminal Justice (TDCJ) uses performance measures established for its various processes and types of funding. Performance measures are developed through the Strategic Plan and Legislative Appropriations Request (LAR) processes. Performance targets are established using the definitions provided by the Legislative Budget Board.

Although the responsibility for control over the achievement of performance measures rests within each of TDCJ's departments, the chief financial officer reviews the outcomes. In addition, the governing board receives the LAR and operating budgets.

TDCJ monitors its performance measures in a variety of ways depending on the type of measure. One example, the performance measure Felony Community Supervision Annual Revocation Rate is monitored using the Community Supervision Tracking System.

Estimating Performance Targets

TDCJ's processes for preparing its LAR should provide reasonable estimates for performance targets. TDCJ delegates the responsibility for forecasting/estimating performance targets to different departments and divisions. Within each department or division are personnel assigned to monitor the performance targets for various programs and functions.

Generally, the divisions and departments use historical information to develop performance targets. Population-dependent measures use projections provided by the Criminal Justice Policy Council. TDCJ sets targets for a two-year period, and the targets are not subject to adjustment. Actual performance is reported quarterly, along with explanations for deviations exceeding 5 percent. These explanations help identify external and internal factors that affect actual performance.

In the course of updating TDCJ's strategic plan and developing the appropriations request, performance measures are reviewed to ensure that they are accurately reflected and are relative to the expected targets. In most cases, target adjustments are based on deviations reported during the prior period and the deviations' identified causes. Internal causes of deviations are addressed and may result in operational changes, while external causes may prompt modification of forecasting/estimating methods or adjustments to the target.

Most Recent Performance Measure Certification

Fiscal Year 1998 – Fiscal Year 2003

The results of *An Audit on Performance Measures at 12 State Entities—Fiscal Year 2001* (Report No. 01-036, August 2001) for this entity are summarized below.

| Period | | Goal/Strategy | Measure | Certification Results |
|---------|-------|------------------------------|---|---------------------------------|
| 2000 | A | Provide Prison Diversions | Felony Community Supervision Annual Revocation Rate | Factors Prevented Certification |
| 2000 | A.1.1 | Basic Supervision | Total Felony Offenders Under Direct Supervision | Factors Prevented Certification |
| 2001 Q1 | A.1.1 | Basic Supervision | Total Felony Offenders Under Direct Supervision | Factors Prevented Certification |
| 2000 | C.1.1 | Security/Classification | Number of Inmates Incarcerated | Certified with Qualification |
| 2001 Q1 | C.1.1 | Security/Classification | Number of Inmates Incarcerated | Certified with Qualification |
| 2000 | C.1.2 | Institutional Goods/Services | Support Services Cost per Inmate Day | Certified with Qualification |

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| Period | Goal/Strategy | | Measure | Certification Results |
|--|---------------|-------------------------------|--|------------------------------|
| 2001 Q1 | C.1.2 | Institutional Goods/Services | Support Services Cost per Inmate Day | Certified with Qualification |
| 2000 | C.1.4 | Managed Health Care | Medical Care Cost per Inmate Day | Certified with Qualification |
| 2001 Q1 | C.1.4 | Managed Health Care | Medical Care Cost per Inmate Day | Certified with Qualification |
| 2000 | C.1.5 | Contracted/Temporary Capacity | Average Number of Inmates in Contractual Correctional Bed Capacity | Certified with Qualification |
| 2000 | E | Operated Parole System | Releasee Annual Revocation Rate | Certified with Qualification |
| Total Measures Certified Without Qualification ^a | | | | 0/11 (0%) |
| Data Reliability Percentage (Certified and Certified with Qualification) | | | | 8/11 (73%) |
| ^a The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)]. | | | | |

| Category | Definition |
|---------------------------------|---|
| Certified | Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data. |
| Certified with Qualification | Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data. |
| Factors Prevented Certification | Actual performance cannot be determined because of inadequate controls and insufficient documentation. |
| Inaccurate | Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation. |
| Not Applicable | A justifiable reason exists for not reporting performance. |

Quality Assurance Team Reviews Conducted by the Legislative Budget Board and State Auditor's Office

Completed Projects

Quality Assurance Team Annual Report – January 2003

The Texas Department of Criminal Justice (TDCJ) completed the Point of Sale/Inventory System project at a cost of \$1,466,205 on June 30, 2000. The initial budget was \$1,661,952, and the initial end date was August 31, 1998.

Completed Projects

Quality Assurance Team Annual Report – January 2002

TDCJ completed the following projects at the total costs noted:

- Community Justice Assistance Division Integrated Database: \$1,881,510
- Data Communications Network: \$5,000,000
- Offender Information Management Reengineering Phase II (b): \$8,634,865
- Offender Information Management Reengineering Phase II (a): \$3,239,982

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Canceled Projects

Quality Assurance Team Annual Report – January 2003

TDCJ canceled the Enterprise-Wide Inventory System project at a total cost of \$0.

TDCJ canceled the Manufacturing System project at a total cost of \$0.

Ongoing Projects

Quality Assurance Team Annual Report – January 2003

Offender Information Management Phase III – Period I (OIM) — In September 1999, TDCJ began reengineering its offender information management business processes and its application of technology and tools. TDCJ's efforts are concentrated on developing a management system to supervise and administer a range of options and sanctions available for felons' integration into society following release from confinement. This project has been separated into multiple phases. Two earlier phases of the project have been completed at a cost of \$14,470,539. Phase III – Period I currently estimates an additional cost of \$28,722,891 for the development of a management system to supervise and administer various options and sanctions available for felon reintegration into society following confinement (parole supervision). Future phases, not included in this time line or budget, will focus on incarceration-related management processes. Current expenditures are \$19,622,562.

Uniform Statewide Payroll – Personnel System (USPS) — In May 1997, TDCJ began enhancing and rewriting its Human Resources and Payroll Information systems and applications so that these systems can interface with USPS. Cost and time line increases reflect additional contract services for implementation of legislative changes and internal payroll request to convert at the beginning of a calendar year for tax purposes. Current expenditures are \$3,987,325.

| Project | Function | Initial Budget | Current Budget | Budget Change | Initial End Date | Current End Date | Time Change |
|---------|-------------------------------|----------------|----------------|---------------|------------------|-----------------------|-------------|
| OIM | Reengineer business processes | \$31,435,650 | \$28,458,892 | (\$2,976,758) | 08/31/01 | 3/31/03 | 19 months |
| USPS | Enhance HR/payroll systems | \$2,704,402 | \$4,143,495 | \$1,439,093 | 04/01/00 | 12/31/02 ^a | 32 months |

^a Confirmation of project completion is pending.

Disaster Preparedness

We gathered information from the Texas Department of Criminal Justice (TDCJ) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating TDCJ's plans. Our objective was only to provide the information reported by TDCJ.

TDCJ's Information Technology and Risk Management sections maintain a current Technology Business Recovery Plan, which addresses mainframe computer operations. The Technology Business Recovery Plan was last updated in March 2001, at which time lists of recovery team members and key contacts were updated. TDCJ requires recovery team personnel to attend seminars on disaster recovery and instructs team members to keep copies of the plan in their cars and homes. TDCJ has a contract with IBM in Sterling Forest, New York, which serves as a backup to the West Texas Disaster Recovery and Operations Center in San Angelo.

TDCJ is currently analyzing all hazards throughout the agency and will use the information to develop emergency management, business continuity, and disaster recovery plans for all critical operations. The estimated completion date for an agency-wide Business Continuity Plan and Disaster Recovery Plan for all non-mainframe systems is July 31, 2003.

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Information System Vulnerability Assessments

The State Auditor’s Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Department of Criminal Justice between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO’s Legislative Summary Document titled “Information System Vulnerability Assessments” provides general information about the results of information system vulnerability assessments.

Travel Expenditures

| Travel Expenditures by Appropriation Year (unaudited) | | | |
|---|---------------------|---------------------|----------------------|
| | 2000 | 2001 | 2002 |
| In-State Travel | \$ 7,489,871 | \$ 7,310,150 | \$ 8,650,331 |
| Out-of-State Travel | 141,693 | 181,761 | 85,946 |
| Foreign Travel | 0 | 0 | 0 |
| Other Travel Costs | (34,352) | 26 | 8,756 |
| Total Travel Expenditures | \$ 7,597,211 | \$ 7,491,938 | \$ 8,745,033 |
| Limit on Travel Expenditures (Cap) | 8,261,471 | 8,261,471 | 141,693 ^a |
| Expenditures in Excess of Cap | \$ 0 | \$ 0 | \$ 0 |

^a Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by TDCJ and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.