STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-037
October 2016

DEPARTMENT OF CORRECTIONS

Fixed Capital Outlay

Audit Performed Pursuant to
Chapter 2016-66, Laws of Florida



Sherrill F. Norman, CPA
Auditor General

Secretary of the Department of Corrections

The Department of Corrections is established by Section 20.315, Florida Statutes. The head of the Department is the Secretary who is appointed by the Governor and subject to confirmation by the Senate. During the period of our audit, the following individuals served as Department Secretary:

Julie L. Jones	From January 5, 2015
Timothy H. Cannon	Interim, November 30, 2014, through January 4, 2015
Michael D. Crews	Through November 30, 2014

The team leader was Jon M. Bardin, CPA, and the audit was supervised by Allen G. Weiner, CPA.

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DEPARTMENT OF CORRECTIONS

Fixed Capital Outlay

SUMMARY

As required by Chapter 2016-66, Laws of Florida, the Auditor General conducted an operational audit of expenditures from, and transfers to and from, fixed capital outlay funds appropriated by the Legislature to the Department of Corrections (Department) for use during the 2013-14, 2014-15, and 2015-16 fiscal years. Our audit disclosed that, for the activities and transactions tested, Department records demonstrated compliance with governing laws and effective operation of related controls.

BACKGROUND

State law[1] specifies that the purpose of the Department of Corrections (Department) is to protect the public through the incarceration and supervision of offenders and to rehabilitate offenders through the application of work, programs, and services. According to Department records, the Department operates the third largest state prison system in the United States and, as of June 2016, housed over 99,000 inmates. The Department reports that it is responsible for and operates 122 facilities Statewide, including 49 major institutions, 17 annexes, 33 work camps, and 13 work release centers.[2] Department records indicated that, as of September 2016, the Department utilized over 4,100 buildings and other structures to house and support inmates.

For the purpose of fiscal affairs of the State, appropriations acts, legislative budgets, and approved budgets, State law[3] defines fixed capital outlay as the appropriation category used by the Legislature to fund real property,[4] including additions, replacements, major repairs, and renovations to real property which materially extend its useful life or materially improve or change its functional use, including furniture and equipment necessary to furnish and operate a new or improved facility. State law[5] specifies that the balance of any appropriation for fixed capital outlay that is not disbursed but expended, contracted, or committed to be expended prior to February 1 of the second fiscal year of the appropriation must be certified by the head of the affected State agency to the Executive Office of the Governor (EOG). The EOG is to review and approve or disapprove the continuation of such unexpended balances, and the balance of any appropriation not approved is to revert to the State fund from which it was appropriated and be available for reappropriation.[6]

[1] Section 20.315(1), Florida Statutes.

[2] Private contractors are responsible for operating 7 correctional facilities and 20 work release centers.

[3] Section 216.011(1)(p), Florida Statutes.

[4] For example, land, buildings, fixtures and fixed equipment, and structures.

[5] Section 216.301(2)(a), Florida Statutes.

[6] Section 216.301(2)(b), Florida Statutes.

As shown in Table 1, for the 2013-14, 2014-15, and 2015-16 fiscal years, the Legislature appropriated to the Department fixed capital outlay funds totaling in excess of $186 million, of which approximately $16.6 million could be utilized to improve and maintain Department facilities and infrastructure.

Table 1
Fixed Capital Outlay Funds Appropriated
For the 2013-14, 2014-15, and 2015-16 Fiscal Years

Purpose	2013-14	2014-15	2015-16	Totals
Correctional Facilities – Lease Purchase	$45,339,384	$64,139,384	$60,043,584	**$169,522,352**
Major Repairs, Renovations, and Improvements to Major Institutions	1,299,719	1,325,000	7,300,000	**9,924,719**
New and Expanded Food Service Facilities	-	4,000,000	-	**4,000,000**
New, Expanded, and Improvements to Medical Facilities	-	-	2,700,000	**2,700,000**
Total Fixed Capital Outlay Appropriations	**$46,639,103**	**$69,464,384**	**$70,043,584**	**$186,147,071**

Source: General Appropriations Acts (Chapters 2013-40, 2014-51, and 2015-232, Laws of Florida).

For the 2013-14, 2014-15, and 2015-16 fiscal years, over $169 million of the fixed capital outlay funds were appropriated to the Department for payments required under master lease purchase agreements used to secure the certificates of participation issued to finance or refinance certain Department and privately managed correctional facilities. Table 2 presents the fixed capital outlay funds appropriated to the Department for master lease purchase agreement payments for the 2013-14, 2014-15, and 2015-16 fiscal years, and Department expenditures of those funds during those years.

Table 2
Appropriations for Lease Purchase Agreement Payments and Related Expenditures
For the 2013-14, 2014-15, and 2015-16 Fiscal Years

	2013-14	2014-15	2015-16
Total Appropriation	**$45,339,384**	**$64,139,384**	**$60,043,584**
Fiscal Year	**Total Expenditures**		
2013-14	$41,711,706	$ -	$ -
2014-15	-	54,131,427	-
2015-16	-	-	51,872,499
Total Expenditures	**$41,711,706**	**$54,131,427**	**$51,872,499**

Sources: General Appropriations Acts (Chapters 2013-40, 2014-51, and 2015-232, Laws of Florida) and Department records.

Table 3 shows Department expenditures of fixed capital outlay funds appropriated to the Department for major repairs, renovations, and improvements to major institutions for the 2013-14, 2014-15, and 2015-16 fiscal years. Department records indicated that, as of March 2016, the Department had 15 projects under construction or in the contract procurement process, with all projects scheduled to be completed by January 2017.

Table 3
Appropriations and Expenditures for Major Repairs, Renovations, and Improvements to Major Institutions
For the 2013-14, 2014-15, and 2015-16 Fiscal Years

	2013-14	2014-15	2015-16
Total Appropriation	**$1,299,719**	**$1,325,000**	**$7,300,000**
Fiscal Year	**Total Expenditures**		
2013-14	$1,249,674	$ -	$ -
2014-15	50,045	1,075,776	-
2015-16	-	249,224	1,458,665
Total Expenditures	**$1,299,719**	**$1,325,000**	**$1,458,665**

Sources: General Appropriations Acts (Chapters 2013-40, 2014-51, and 2015-232, Laws of Florida) and Department records.

For the construction of new or expanded facilities, the Legislature appropriated to the Department $4 million for the 2014-15 fiscal year and $2.7 million for the 2015-16 fiscal year.[7] As shown in Table 4, as of June 30, 2016, the Department had expended the majority of the funds appropriated for the 2014-15 fiscal year. Before construction begins for most fixed capital outlay projects, the Department obtains architectural and engineering design specifications and building permits. According to Department management, as of April 2016, the architectural and engineering designs had been completed for the expansion of the Union Correctional Institution's medical facilities. This project is scheduled to utilize the fixed capital outlay funds appropriated for the 2015-16 fiscal year.

Table 4
Appropriations and Expenditures For New or Expanded Facilities
For the 2013-14, 2014-15, and 2015-16 Fiscal Years

	2013-14	2014-15	2015-16
Total Appropriation	**$ -**	**$4,000,000**	**$2,700,000**
Fiscal Year	**Total Expenditures**		
2013-14	$ -	$ -	$ -
2014-15	-	1,338,103	-
2015-16	-	2,445,365	-
Total Expenditures	**$ -**	**$3,783,468**	**$ -**

Sources: General Appropriations Acts (Chapters 2013-40, 2014-51, and 2015-232, Laws of Florida) and Department records.

[7] Chapters 2014-51 and 2015-232, Laws of Florida, respectively. The Legislature did not appropriate funds to the Department for the construction of new or expanded facilities for the 2013-14 fiscal year.

FINDINGS

During the period July 2013 through June 2016, the Department made 1,345 fixed capital outlay expenditures, totaling $7,866,852, related to 34 projects at its correctional facilities. As shown in Table 5, our audit included tests of selected Department records for 67 fixed capital outlay expenditures totaling $6,675,323.

Table 5
Project-Related Fixed Capital Outlay
Expenditures Included in Audit Testing

	Project – Related Expenditures Tested	
Fiscal Year	**Number**	**Amount**
2013-14	7	$1,249,674
2014-15	30	$1,834,728
2015-16	30	$3,590,921
Totals	**67**	**$6,675,323**

Our audit also included tests of Department records related to master lease purchase agreement payments totaling $147,715,632 during the period July 2013 through June 2016 and an analysis of Department budgetary transfer activity during the same period.

Our audit procedures, as described in the ***OBJECTIVES, SCOPE, AND METHODOLOGY*** section of this report, disclosed that, for the activities and transactions tested, Department records demonstrated compliance with governing laws and effective operation of related controls.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

Chapter 2016-66, Laws of Florida, required the Auditor General to conduct an operational audit of expenditures from, and transfers to and from, fixed capital outlay funds appropriated to the Department of Corrections (Department) for use during the 2013-14, 2014-15, and 2015-16 fiscal years. We conducted this operational audit from March 2016 through September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the Department's administration of fixed capital outlay funds. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, Department policies and procedures, contract documents, and other guidelines, and interviewed Department personnel to gain an understanding of fixed capital outlay projects and expenditures and the fixed capital outlay budgeting process.
- Evaluated Department controls designed to promote compliance with governing laws for the administration of fixed capital outlay funds and the achievement of management's control objectives.
- Examined Department records for 67 fixed capital outlay expenditures, totaling $6,675,323, from the population of 1,345 fixed capital outlay expenditures, totaling $7,866,852, made during the

period July 2013 through June 2016 from fixed capital outlay funds appropriated to the Department for use during the 2013-14 through 2015-16 fiscal years, to determine whether the related fixed capital outlay projects were procured in accordance with governing laws and Department policies and procedures and the expenditures were properly authorized, paid in the appropriate amounts, supported by sufficient documentation, and correctly recorded in Department accounting records. Specifically, we examined Department records for:

  - The 7 fixed capital outlay expenditures, totaling $1,249,674, made during the period July 2013 through June 2014.
  - 30 fixed capital outlay expenditures, totaling $1,834,728, from the population of 997 fixed capital outlay expenditures, totaling $2,463,924, made during the period July 2014 through June 2015.
  - 30 fixed capital outlay expenditures, totaling $3,590,921, from the population of 341 fixed capital outlay expenditures, totaling $4,153,254, made during the period July 2015 through June 2016.

- Examined Department records for master lease purchase agreement payments, totaling $147,715,632, made during the period July 2013 through June 2016 from fixed capital outlay funds appropriated to the Department for use during the 2013-14 through 2015-16 fiscal years, to determine whether the available funds were sufficient to meet the required master lease purchase agreement payments and the payments were made in accordance with the requirements of the General Appropriations Acts.
- Examined Department records related to 10 fixed capital outlay projects, from the population of 42 fixed capital outlay projects active during the period July 2013 through June 2016, to determine whether the Department timely initiated and completed the projects and managed the projects in accordance with available funds, critical needs, and contractual requirements.
- Examined Department records related to 10 fixed capital outlay projects, from the population of 42 fixed capital outlay projects active during the period July 2013 through June 2016, to determine whether the Department appropriately monitored the project-related construction or repairs.
- Analyzed Department expenditures totaling $7,078,974,965 for the 2013-14, 2014-15, and 2015-16 fiscal years, recorded in the Florida Accounting Information Resource Subsystem as funded from appropriation categories other than fixed capital outlay, to determine whether the expenditures were correctly recorded as not related to fixed capital outlay.
- Analyzed Department legislative budget requests for the 2013-14, 2014-15, and 2015-16 fiscal years to determine whether the requests included a prioritized listing of fixed capital outlay projects and whether requests for subsequent years included projects that were not appropriated funding.
- Analyzed Legislative Appropriations System/Planning and Budgeting Subsystem records to determine whether the Department made any budgetary transfers to or from fixed capital outlay categories during the period July 2013 through June 2016, and, if so, whether the transfers were made in accordance with Section 216.292, Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

AUTHORITY

Chapter 2016-66, Laws of Florida, required the Auditor General to conduct an operational audit of expenditures from, and transfers to and from, fixed capital outlay funds appropriated to the Department of Corrections for use during the 2013-14, 2014-15, and 2015-16 fiscal years. Pursuant to the provisions of Section 11.45, Florida Statutes, and Chapter 2016-66, Laws of Florida, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General