



An Audit Report on

# Capital Projects at the Department of Criminal Justice

- The Department of Criminal Justice (Department) had strong processes for monitoring capital projects, including projects completed in-house and those that contractors completed.
- The Department expended capital budget appropriations as intended.
- The Department complied with reporting requirements for planned capital expenditures.

Lisa R. Collier, CPA, CFE, CIDA  
State Auditor

The Department of Criminal Justice (Department) effectively monitored capital projects and expended capital budget appropriations as intended. Additionally, the Department complied with the reporting requirements in the General Appropriations Act (87th Legislature), which requires state agencies receiving appropriated funds to report capital planning information for specific projects.

- [Background](#) | p. 3
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*This audit was conducted in accordance with Texas Government Code Sections 321.013, 321.0131, and 321.0132.*

## **MEDIUM**

### **CAPITAL PROJECT ADMINISTRATION**

The Department implemented effective processes to manage capital projects and monitor associated contracts when applicable. However, it should require its contractors to include all specifications and tests in their quality control plans.

[Chapter 1 | p. 5](#)

## **LOW**

### **CAPITAL BUDGET EXPENDITURES**

The Department spent all capital expenditures tested in a manner consistent with the applicable appropriations' purpose, and each expenditure was properly supported.

[Chapter 2 | p. 8](#)

## **LOW**

### **PLANNED CAPITAL EXPENDITURES**

The Department accurately reported \$1.1 billion in anticipated capital expenditures to the Bond Review Board.

[Chapter 3 | p. 10](#)

For more information about this audit, contact Audit Manager Lauren Godfrey or State Auditor Lisa Collier at 512-936-9500.

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## Summary of Management's Response

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Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. The Department agreed with the recommendations.

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## Ratings Definitions

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Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

**PRIORITY:** Issues identified present risks or effects that if not addressed could *critically affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

**HIGH:** Issues identified present risks or effects that if not addressed could *substantially affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

**MEDIUM:** Issues identified present risks or effects that if not addressed could *moderately affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

**LOW:** The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks *or* effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see Report Ratings section in [Appendix 1](#).

# Background Information

## Construction-related Capital Budget Expenditures

The Department of Criminal Justice (Department) spent \$97.0 million in capital appropriations for all construction-related capital projects between fiscal years 2020 and 2022. Figure 1 summarizes the project types in which the Department spent these funds.

Figure 1

### *Total Expenditures for Construction-related Capital Projects Fiscal Years 2020-2022 <sup>a</sup>*

Project Type	Description	Total Expenditure Amount
Climate Control	Includes installation or repair of heating, ventilation, and air conditioning systems; air handling units; and boilers.	\$22.9 million
Roof	Includes roofing repair and replacement.	\$19.2 million
Surveillance	Includes installation of video surveillance cameras.	\$12.2 million
Electrical	Includes replacing generators, electrical distribution systems, and transformers.	\$9.9 million
Security	Includes replacement of locking systems, security lighting, fencing, and pulse monitoring detection systems.	\$9.7 million
Plumbing	Includes repair, refurbishment, or replacement of plumbing systems, waste water treatment systems, water heaters, and water storage units.	\$9.7 million
Wells	Includes construction, repair, or replacement of water wells.	\$3.1 million
Miscellaneous	Includes repair and replacement of items such as refrigeration, fire alarm systems, and agricultural facilities.	\$10.3 million
<b>Total Expenditures</b>		<b>\$97.0 million</b>

<sup>a</sup> This table lists only the Department's construction-related capital expenditures from its fiscal years 2020 through 2022 capital appropriations.

Source: The Department's accounting system, LONESTARS.

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**This audit examined eight projects with budgeted costs totaling \$52.7 million.**

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The projects, listed in Figure 2, were selected based on specific risk factors, such as total expenditures, and to provide coverage of the Department's six regions and its privately operated units.

Figure 2

***Projects Audited***

<b>Project</b>	<b>Budget</b>	<b>Description</b>
Install Video Surveillance Systems	\$16.0 million	Install video surveillance systems at nine maximum security units.
Replace Primary Power Distribution System	\$10.8 million	Replace high voltage transformers with primary distribution transformers and underground cabling at the Wynne Unit in Huntsville.
Install Air Conditioning	\$5.6 million	Install air conditioning at the Hodge Unit in Rusk.
Replace Floor and Plumbing System	\$3.8 million	Replace the structural floor and plumbing system in one building at the Clemens Unit in Brazoria.
Install Air Conditioning	\$4.0 million	Install air conditioning in the Pack Unit in Navasota.
Replace Roofing	\$10.3 million	Replace the roofing system of multiple buildings at the Montford Unit in Lubbock.
Replace Door Controls	\$1.2 million	Replace the locking system at the Lindsey Unit, a privately-operated state jail in Jacksboro.
Replace Water Well	\$1.0 million	Develop a new water well with 600 gallon-per-minute capacity at the Department's Chase Field Work Camp in Beeville.
<b>Total</b>	<b>\$52.7 million</b>	

Sources: Texas Board of Criminal Justice meeting minutes and the Department.



**MEDIUM**

## Chapter 1 Capital Project Administration

The Department of Criminal Justice (Department) implemented several effective processes and controls to manage capital projects and monitor contracts for capital projects. However, it should require its contractors to include all specifications and tests in their quality control plans to decrease the risk that capital projects will not be constructed as designed.

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### The Department effectively monitored capital projects.

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The Department had strong process for monitoring most capital projects, including projects completed in-house and those that contractors completed. For example, management approved in-house projects prior to beginning construction and conducted regular quality assurance inspections of contractors' work. The Department also verified each contractor's progress by conducting construction site walkthroughs and holding monthly progress meetings.

In addition, the Department's change orders that affected the total project costs were for items that were reasonably unforeseeable when the contract was executed and were approved in accordance with the Department's documented procedures. The Department also followed its project close-out process and completed final inspections, verifying that the contractor resolved all quality issues identified during final inspections.

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## The Department should verify that contractors include all contract specifications and required tests in their quality control plans.

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Although the Department approved all quality control plans before its contractors began the capital projects tested, none of those plans included a complete listing of all the tests to be performed as required by the Department's documented procedures. For example, one of the quality control plans did not include the electric safety testing that is required by the U.S. Occupational Health and Safety Administration and the National Fire Protection Association. That testing, which the contractor ultimately performed, was listed in the contract specifications but not in the quality control plan. Incomplete quality control plans increase the risk that work will not be completed as planned or in accordance with contract specifications.

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### Recommendation

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The Department should verify that contractors' quality control plans contain all required elements, including contract specifications and quality and safety testing.

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### Management's Response

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The agency agrees with the SAO's recommendation to verify that contractors' quality control plans contain all required elements.

- *Corrective Action:* The agency has updated standard operating procedures to require quality control plans to be submitted at pre-construction meetings for the design professional to review and verify that all required elements, such as specifications and required testing, are included. Additionally, the project manager and inspector will review and provide an acceptance letter upon approval.

- *Position Responsible for Implementation:* Facilities Division Director
- *Timeline:* Immediately

**LOW**

## Chapter 2 Capital Budget Expenditures

### The Department expended capital budget appropriations as intended.

The Department spent all 41 expenditures tested, totaling \$9.0 million<sup>1</sup>, in a manner consistent with the applicable appropriations' purpose and each expenditure was properly supported. In addition, the Department approved all significant expenditures tested as required by its policies. The Department also paid contractors consistent with each project's progress, accurately calculating the payment and retainage amounts when applicable.

In addition, the Department spent \$5.8 million of non-capital appropriations on capital projects, including the projects audited. Because those projects exceeded the State's threshold for capital budget expenditures (see text box), the Department should have used only capital budget appropriations or followed the process established in the General Appropriations Act<sup>2</sup> to request approval to use other appropriations.

#### Capital Budget Expenditures and Appropriations

**Capital budget expenditures** include expenditures for assets with a biennial project cost or unit cost in excess of \$100,000 in certain categories, including construction or repair of buildings and facilities.

**Capital budget appropriations** are funds specifically appropriated for capital projects. The Department's appropriation allows it to spend only these type of appropriations for capital budget expenditures.

Source: The General Appropriations Act (87th Legislature).

### Recommendation

The Department should pay for capital budget expenditures from only capital budget appropriations or follow the process in the General Appropriations Act to request approval to use other appropriations.

<sup>1</sup> The expenditures tested were from the eight projects within the audit scope. As of August 2022, the Department had spent \$30.9 million in capital budget expenditures on those projects.

<sup>2</sup> Article IX, Section 14.03, the General Appropriations Act (87th Legislature).



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## Management's Response

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The agency agrees with the SAO's recommendation for capital budget expenditures.

- *Corrective Action:* The agency will ensure capital budget expenditures are paid from capital budget appropriations in accordance with the General Appropriations Act and guidance from the Legislative Budget Board and the Comptroller.
- *Position Responsible for Implementation:* Chief Financial Officer
- *Timeline:* Immediately

**LOW**

## Chapter 3 Planned Capital Expenditures

The Department complied with the reporting requirements in Article IX, Section 11.03, the General Appropriations Act (87th Legislature), which requires state agencies receiving appropriated funds to report capital planning information for specific projects (see text box).

### The Department accurately reported \$1.1 billion in anticipated capital expenditures to the Bond Review Board.

Specifically, the Department's report to the Bond Review Board contained all currently proposed projects from the Department's database that met the criteria for capital planning expenditures. The Department also reported costs—which it planned to finance with General Revenue—that were consistent with its internal estimates. Figure 3 on the next page shows the projects comprising the Department's \$1.1 billion in anticipated capital projects.

The Department's estimate of capital planning expenditures consists primarily of cost estimates from internal major work request forms. Department staff use those request forms to communicate to management the need for repairs and new facilities and to estimate the associated costs. Department personnel obtained most required approvals for all 30 requests tested<sup>3</sup>. It did not obtain all intermediate approvals for two of the requests that the Department asserted were urgent.

#### Capital Planning Information

Agencies and higher education institutions must report capital planning information projects related to:

- Acquisition of land.
- Construction of buildings and facilities.
- Renovations of buildings and other facilities estimated to exceed \$1 million in the aggregate for a single state agency or institution of higher education.
- Major information resources projects estimated to exceed \$1 million.

Source: Article IX, Section 11.03, General Appropriations Act (87th Legislature).

<sup>3</sup> The Department had a total of 1,303 work requests from September 1, 2020, through August 31, 2022.

**Deferred maintenance.** While the total \$1.1 billion for anticipated capital expenditures was accurate, the Department did not distinguish how much of this amount was for deferred maintenance. The Department reported \$0 for deferred maintenance, but it asserted that some of the reported costs were for deferred maintenance projects.

Figure 3

*The Department’s Planned Capital Expenditures <sup>a</sup>  
(For Fiscal Years 2023 through 2027)*

Project Name	Total Estimated Cost	Planned Start Date	Planned End Date
Safety	\$165,310,000	September 2022	August 2028
Security	\$274,497,000	September 2022	August 2028
Facilities Infrastructure	\$608,993,000	September 2022	August 2028
Corrections Information Technology System	\$24,855,000	September 2022	August 2027
Enterprise Banking System	\$11,560,000	September 2023	August 2028
Enterprise Inventory System	\$6,572,500	September 2023	August 2028
<b>Total</b>	<b>\$1,091,787,500</b>		

<sup>a</sup> The Department’s summary report contains planning information for the time period beginning September 2022 through fiscal year 2027 and beyond.

Source: The Department’s *Capital Expenditure Plan Summary Report (Fiscal Years 2023-2027)*.

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## Recommendation

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The Department should identify and report deferred maintenance in its future planned capital expenditure reports.

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## Management’s Response

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The agency agrees with the SAO’s recommendation to identify deferred maintenance in future capital expenditure reports.

- *Corrective Action:* The agency will ensure deferred projects are identified in future planned capital expenditure reports.
- *Position Responsible for Implementation:* Chief Financial Officer
- *Timeline:* Immediately



## Appendix

# Objectives, Scope, and Methodology

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## Objectives

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The objectives of this audit were to determine whether Department of Criminal Justice (Department):

- Has processes and controls to administer and monitor contracts for capital projects, including any deferred maintenance.
- Ensures that related expenditures are supported and spent for their intended purpose.
- Accurately reports capital planning information to the Bond Review Board for the State of Texas Capital Expenditure Plan as required.

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## Scope

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The scope of this audit covered eight selected capital construction projects funded through fiscal years 2020-2022 capital budget appropriations, and associated monitoring and expenditures through August 2022. The audit also examined how the Department funded certain capital projects during the same period.

The following members of the State Auditor's staff performed the audit:



• Gregory Scott Adams, CPA, MPA, CGFM (Project Manager)

- Link Wilson (Assistant Project Manager)
- Kirsten Adamcik, MBA, CFE
- Charlotte Carpenter, CPA
- Kate Reagor, MSIS
- Jeremy Wong
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Lauren Godfrey, CIA, CGAP (Audit Manager)

Additionally, the audit scope included data the Department submitted to the Bond Review Board for its planned capital expenditures for fiscal years 2023 through 2027 and beyond and a review of significant internal control components related to capital projects.

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## Methodology

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We conducted this performance audit from July 2022 through February 2023 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. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Department management for consideration.

### Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed Department personnel to gain an understanding of its processes for monitoring and administering capital contracts, processing capital expenditures, and reporting capital projects.
- Identified the relevant criteria:
  - Article V, the General Appropriations Acts (86th and 87th Legislatures).
  - Article IX, Sections 11.03 and 14.03, the General Appropriations Acts (86th and 87th Legislatures).
  - Department policies, including its standard operating procedures, *Executive Directive 10.06 (Construction, Maintenance, Renovation, or Alteration of Department Facilities)*, *Quality Assurance Manual*, and *Procurement Card Manual*.

To evaluate the Department's capital project monitoring and expenditures, we performed the following:

- Reviewed certain capital projects to determine whether the Department funded them solely through capital appropriations.
- Selected eight capital projects for testing based on specific risk factors, such as total expenditures in the selected appropriations and to provide coverage of the Department's six regions and its privately operated units.
- Obtained and reviewed payment vouchers; project documentation, including project specifications; quality control plans; and contracts.
- Tested the eight selected projects' close-out processes, progress monitoring, change orders, quality control plans, and project authorizations for compliance with Department processes, as applicable.
- Selected a nonstatistical, random sample of capital expenditures stratified by the total expenditures of the selected projects. The sample was augmented by capital expenditures selected based on risk. This sample design was chosen to ensure that the sample included a cross section of capital expenditures and to address specific risk factors identified in the population, such as the expenditure amount.

Auditors tested these expenditures for compliance with Department policies and procedures and contract terms, as applicable. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To evaluate the Department's reporting of capital planning information, we performed the following:

- Obtained the Department's *Capital Expenditure Plan Summary Report (Fiscal Years 2023-2027)* and determined whether it was consistent with underlying records, including the related major work request project data.
- Selected a nonstatistical, random sample of major work requests stratified by region. This sample design was chosen to ensure that the sample included a cross section of work requests and to provide coverage across regions. Auditors determined whether the Department approved the work requests in accordance with its documented procedures. The sample items were not necessarily representative of

the population; therefore, it would not be appropriate to project the test results to the population.

### **Data Reliability and Completeness**

Auditors determined that all data sets were sufficiently reliable for the purposes of the audit. Specifically, to determine the reliability of:

- Uniform Statewide Accounting System (USAS) expenditures and appropriations data, auditors relied on prior State Auditor's Office work to determine that USAS data is reliable. Additionally, auditors tested access controls for Department personnel to USAS.
- LONESTARS accounting system expenditure data, auditors observed Department personnel extract the data and reconciled it to USAS.
- Compass Major Work Request project data, auditors compared it with the Department's source documentation, such as tracking spreadsheets. In addition, auditors reviewed the Department's processes for ensuring that Compass data is accurate and complete. Auditors also observed data controls over the entry of a new major work request.

### **Report Ratings**

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.





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The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

## **Office of the Governor**

The Honorable Greg Abbott, Governor

## **Department of Criminal Justice**

Members of Board of Criminal Justice

Mr. Bryan Collier, Executive Director



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