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An Audit Report on

# **The Cost of the State's Correctional Managed Health Care**

October 2006  
Report No. 07-003



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### *Overall Conclusion*

Amounts in the financial reports that the University of Texas Medical Branch at Galveston (Medical Branch) and the Texas Tech University Health Sciences Center (Health Sciences Center) submit to the Correctional Managed Health Care Committee are supported by each institution's accounting system.

In addition, the methodologies that the Medical Branch and the Health Sciences Center use to account for and report the costs of providing health care to state prison inmates are reasonable. For example:

- The Medical Branch qualifies for the federal government's Public Health Service Section 340B Drug Pricing Program, which enables it to obtain the lowest possible prices for medicine. The Health Sciences Center does not qualify for this program, but the Medical Branch purchases medicine for the Health Sciences Center through a consortium. This enables the Medical Branch to obtain the lowest possible prices for the Health Sciences Center.
- Both the Medical Branch and the Health Sciences Center compute their indirect cost allocation rates as a percent of revenue (instead of as a percent of expenses) and then apply these rates to the revenue they received from the Correctional Managed Health Care Committee. This is not the standard methodology for allocating indirect costs (indirect costs are typically computed as a percent of direct expenses), but cost accounting guidance indicates that any reasonable method may be used.

Both institutions we audited also had reasonable support for the supplemental appropriations they requested and received from the Legislature in fiscal year 2005.

#### **Background Information**

The University of Texas Medical Branch at Galveston covers the southern and eastern parts of the state and provides health care to approximately 79 percent of state prison inmates.

The Texas Tech University Health Sciences Center covers the western part of the State and provides health care to approximately 21 percent of state prison inmates.

The Department of Criminal Justice contracts with the Correctional Managed Health Care Committee, which then contracts with each of the institutions on a biennial basis.

Inmate health care is financed through direct appropriations to the Department of Criminal Justice. These funds are then passed to the Correctional Managed Health Care Committee, which pays each of the institutions a capitated rate for each inmate in the state prisons they serve.

In fiscal year 2005, the Medical Branch and the Health Sciences Center received a total of \$342.2 million to provide health care to a daily average of approximately 151,000 inmates.

The Medical Branch made errors in the implementation of its methodologies that resulted in minor inaccuracies in its reported costs. Auditors also identified improvements the Medical Branch should make to the procedures it uses to calculate certain costs.

During this audit, we noted that the Correctional Managed Health Care Committee, the Medical Branch, and the Health Sciences Center have made operational changes in response to issues raised in a November 2004 State Auditor's Office report (*An Audit Report on Management of Correctional Managed Health Care Contracts*, State Auditor's Office Report No. 05-012). For example:

- The two institutions now submit monthly financial reports to the Correctional Managed Health Care Committee in an agreed-upon format.
- The two institutions' contracts with the Correctional Managed Health Care Committee now include (1) a list of unallowable expenditures and (2) commitments from each institution's internal audit department to audit correctional health care issues annually.
- The Correctional Managed Health Care Committee has hired a finance manager to review the institutions' monthly financial reports and inquire about questionable expenditures.

This audit report also provides some background information on inmate health care and compares Texas's costs for inmate health care with costs in other states. Although costs are not entirely comparable across states, our analysis indicates that the cost of inmate health care in Texas is generally lower than costs in other states.

### ***Summary of Management's Response***

The Medical Branch agrees with the recommendations in this report. The Health Sciences Center chose not to respond to this report because the report does not include any recommendations for the Health Sciences Center.

### ***Summary of Information Technology Review***

The information technology review was limited to user access and data security for the hospital patient billing and physician salary applications at the Medical Branch. We did not review any other general controls or application controls at the Medical Branch or the Health Sciences Center.

## ***Summary of Objective, Scope, and Methodology***

The audit objective was to determine the methodologies the Medical Branch and Health Sciences Center use to allocate the overhead costs associated with providing inmate health care.

The audit focused on the institutions' methodologies surrounding the compilation of costs incurred in providing services under their contracts with the Correctional Managed Health Care Committee. These contracts are managed by the Correctional Managed Care Department at the Medical Branch and by the Correctional Managed Health Care Department at the Health Sciences Center. We audited methodologies for costs the institutions reported they incurred from September 2004 through February 2006.

The audit methodology included interviewing staff at the Department of Criminal Justice, the Correctional Managed Health Care Committee, the Medical Branch, and the Health Sciences Center; reviewing documentation for financial amounts institutions reported to the Correctional Managed Care Committee; and analyzing payroll records and patient billing data to determine compliance with the institutions' policies and procedures.

# Contents

## *Detailed Results*

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Chapter 1	
The Institutions' Methodologies to Account for and Report the Costs of Inmate Health Care Are Reasonable .....	1
Chapter 2	
Background Information on Inmate Health Care Costs in Texas .....	13

## *Appendices*

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Appendix 1	
Objective, Scope, and Methodology .....	19
Appendix 2	
Institutions' Financial Reports for Fiscal Year 2005 and the First Half of Fiscal Year 2006 .....	23
Appendix 3	
Recent State Auditor's Office Work .....	27

# *Detailed Results*

## *Chapter 1*

### ***The Institutions' Methodologies to Account for and Report the Costs of Inmate Health Care Are Reasonable***

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Amounts in the financial reports that the University of Texas Medical Branch at Galveston (Medical Branch) and the Texas Tech University Health Sciences Center (Health Sciences Center) submit to the Correctional Managed Health Care Committee are supported by each institution's accounting system. In addition, the methodologies that the Medical Branch and the Health Sciences Center use to account for and report the costs of providing health care to state prison inmates are reasonable.

It is important to note that this audit focused on the methodologies the institutions use to account for and report costs. While we identified minor errors in certain reported costs, we did not verify the accuracy or assess the appropriateness of the financial transactions that supported the reported costs.

Auditors identified improvements the Medical Branch should make to the procedures it uses to calculate costs. For example, reported salary costs for individuals working at multiple prison units are not based exclusively on actual time spent working at each prison unit; instead, those costs are calculated using predetermined budget allocation percentages. Allocating salary costs based on actual time worked would be a more accurate way to report salary costs. In addition, the Medical Branch made errors in the implementation of its methodology that resulted in minor inaccuracies in its reported costs.

#### Chapter 1-A

### **The Institutions Have Information to Support Their Financial Reports Regarding the Cost of Inmate Health Care**

Amounts in institutions' financial reports to the Correctional Managed Health Care Committee are supported by each institution's accounting system. However, the Medical Branch's hospital and physician costs for treating state inmates are not separately identified in its accounting system; instead, those costs are recorded in the accounting system as part of the total hospital and physician costs for all patients. The Medical Branch separates its hospital and physician costs for treating state inmates through use of the cost accounting system described in Chapter 1-C.

The process the Health Sciences Center uses to produce its financial reports for the Correctional Managed Health Care Committee requires a significant amount of manual adjustments to the data produced by its accounting system. While we did not identify any issues related to this process, we previously

identified problems with the accounting system the Health Sciences Center uses (see *An Audit Report on Financial System Controls at Texas Tech University*, State Auditor's Office Report No. 06-014, November 2005). The Health Sciences Center and Texas Tech University (which also uses the accounting system) have selected a new accounting system and plan to implement it by September 2008. This should allow for increased automation in producing the financial reports for the Correctional Managed Health Care Committee.

#### Supplemental Appropriations

According to the General Appropriations Act, the institutions are not permitted to supplement funds appropriated for correctional health care with other appropriated or local funds (see Rider 6, page III-175, and Rider 3, page III-205, General Appropriations Act, 78th Legislature; and Rider 7, page III-168, and Rider 4, page III-194, General Appropriations Act, 79th Legislature). Therefore, when the institutions experience operating losses, their only recourse is to request supplemental appropriations.

During the 79th legislative session, both institutions requested and received supplemental appropriations to cover their reported operating losses. For both institutions, the support for the supplemental appropriations requests consisted of the accumulation of net operating losses for correctional health care during the 2004-2005 biennium. This methodology appears to be reasonable. It should be noted that we did not verify the accuracy of the operating losses, although they were supported by information in the institutions' accounting systems. Determining the accuracy of the losses would require verifying the accuracy of the reported amounts that are significant to the calculation of each of the losses.

#### Chapter 1-B

### Institutions' Methodologies for Calculating Personnel Costs Are Reasonable, But the Medical Branch Should Make Certain Improvements to Its Process for Calculating These Costs

#### Personnel Costs

Personnel costs include the salaries of Medical Branch and Health Sciences Center employees involved in providing health care to state inmates. These employees include the doctors, nurses, and support staff who treat inmates in clinics at state prison units; employees working at the Medical Branch's pharmacy; and administrative staff in each institution's correctional health care department.

In fiscal year 2005:

- The Medical Branch reported \$133.7 million in personnel costs. This includes the salaries of 2,858 employees, of whom 71 are doctors, 70 are dentists, 1,014 are nurses, and 455 are other licensed health care professionals.
- The Health Sciences Center reported \$22.6 million in personnel costs and \$21.7 million in contract payments to local hospitals for treating inmates in clinics at state prison units. The personnel costs include the salaries of 559 employees, of whom 37 are doctors, 11 are dentists, 279 are nurses, and 41 are other licensed health care professionals.

For detailed cost information, see Appendix 2.

The institutions' methodologies for calculating personnel costs are reasonable. The Medical Branch staffs all of its prison units with doctors, nurses, and support staff who are Medical Branch employees. As a result, the cost of salaries is the Medical Branch's single largest expense for correctional health care. The Health Sciences Center staffs 25 percent of its prison units with doctors, nurses, and support staff who are Health Sciences Center employees. The remaining 75 percent of the prison units are staffed with doctors who are Health Sciences Center employees, but the nurses and support staff are employees of contracted local hospitals.

The Health Sciences Center pays reasonable capitation rates to the local hospitals that provide on-site health care to the prison units. Payments under these contracts are based on a rate per inmate per day times 96 percent of the capacity of the unit. If these payments had been adjusted to each unit's actual

population, it would have cost the State approximately \$470,000 more in fiscal year 2005.

The Medical Branch should improve its procedures for calculating certain personnel costs.

Although the Medical Branch's methodology for calculating personnel costs is reasonable, auditors identified certain improvements the Medical Branch should make to its procedures for calculating these costs. Specifically:

- The salaries of Medical Branch correctional health care employees who are paid on a monthly basis are not allocated among various correctional health care contracts or prison units based upon actual time worked, as required by the Medical Branch's contract with the Correctional Managed Health Care Committee for fiscal years 2006 and 2007. The Medical Branch's Correctional Managed Care Department provides health care to correctional units within the Department of Criminal Justice, the Youth Commission, the Federal Bureau of Prisons, and in several Texas counties. It is important to note that only about 1 percent of the Medical Branch's correctional health care employees who are paid on a monthly basis perform work at correctional units for more than one entity.

Employees who are paid on a monthly basis do not submit timesheets; they only submit forms requesting to take sick leave or vacation. The Medical Branch allocates these employees' salaries based upon budgeted allocation information stored in its payroll system. This issue was previously identified in *An Audit Report on Management of Correctional Managed Care Contracts* (State Auditor's Office Report No. 05-012, November 2004).

In responding to a finding in a May 2006 report by the Medical Branch's internal auditor, management in the Medical Branch's Correctional Managed Care Department stated that they would begin requiring employees who work at multiple prison units to "validate on a bi-monthly basis that the percentage allocation is correct." The Correctional Managed Care Department would like to implement a proximity card system at all units to electronically record time in and time out for each employee. It has estimated that the implementation of this type of system would cost more than \$400,000 for the hardware, excluding any costs for hardware installation, additional wiring, or cabling.

**Example of the Medical Branch's Payroll System Processing for Employees Paid on an Hourly Basis**

An employee's primary reporting unit is unit A and the employee's budgeted allocation is 80 percent to unit A and 20 percent to unit B.

The employee's timesheets for a two-week period reflects 70 hours worked at unit A and 10 hours worked at unit B. Therefore, the employee asserts that he or she worked 87.5 percent of the time at unit A and 12.5 percent at unit B.

The Medical Branch's payroll system will process the payroll using the employee's budgeted allocation, in addition to the actual time worked and recorded on the employee's timesheet. Specifically, it will adjust the actual time worked and calculate that the employee worked 56 hours at unit A (80 percent of 70 hours) and 24 hours at unit B (20 percent of 70 hours, plus 10 hours). This, in effect, changes the allocation to 70 percent at unit A and 30 percent at unit B.

- The salaries of Medical Branch correctional health care employees who are paid on an hourly basis may not always be allocated among various prison units based upon actual time worked. This is because the Medical Branch's payroll system automatically adjusts these employees' time by the budgeted allocation information stored in the payroll system. This makes it impossible to determine whether the payroll allocation reflects the actual time worked (see text box for additional details). The Medical Branch is currently implementing a new timekeeping and payroll system.
- The Medical Branch's Correctional Managed Care Department does not consistently notify the Medical Branch's payroll department when employees terminate employment. During fiscal year 2005 and the first six months of fiscal year 2006, on three occasions the Correctional Managed Care Department

took more than two weeks to notify the payroll department that employees providing health care to state inmates had terminated their employment. For one of these occasions, the payroll department was notified more than eight weeks after the employee left employment. As a result, this employee was erroneously paid a total of \$3,188 in salary, which did not appear to have been repaid as of the time of our audit.

## Recommendations

The Medical Branch should:

- Require all inmate health care personnel who are paid on a monthly basis to report the actual percentage of their time spent at different units. This reporting should be done on a monthly basis. The Medical Branch should then use this information to determine whether it should adjust the allocation percentages in its payroll system.
- Ensure that its current and future payroll systems are configured to process payroll for employees who are paid on an hourly basis using only the actual time recorded on employee timesheets.
- Review and update procedures for handling employee terminations to ensure that payroll staff are notified immediately and that employees will not be paid for work not performed.

## Management's Response

- *Department managers have been provided with current budgetary appointments for all their personnel [reports distributed 9-18-06] and have been instructed to denote any "clean up" required. UTMB-CMC will continue to distribute reports on a bimonthly basis (reflected in UTMB's Internal Audit of CMC dated March 2006) of all monthly salaried appointments for review and confirmation as to the continued accuracy of budgetary appointments.*
- *Classified (hourly) personnel are paid for only the hours entered into KRONOS (UTMB CMC's Time and Attendance System). To assure there is not a 'compounding' affect between time reported and budgeted funding, CMC will move towards a single budgeting source versus percentage allocations for staff employed across contracts. The responsibility will then be on unit managers and timekeepers to appropriately reflect hours worked per unit.*

*CMC has issued a PO to acquire KRONOS time capture devices (electronic time clocks using proximity cards), which should assist with the automation and accuracy of time capture for all personnel. This project will very likely take all of FY07 to implement, as these devices will need to be installed at over 100 locations across the State requiring approvals from other agency authorities, cable pulls, training, etc.*

- *The reporting of UTMB-CMC employee separations is an administrative function which each CMC manager and supervisor has the responsibility to see to it that Human Resources and Payroll are notified in a prompt manner. For the great majority of separations, this function occurs in a timely and efficient fashion; however, we recognize the need to be at one hundred percent of separations being processed in a timely manner.*

*With the current implementation of Peoplesoft HCM, in the near future managers will have the capability to initiate on-line his/her separations directly to Human Resources. This will reduce the reliance on a paper system. In addition, CMC will emphasize the importance of this procedure in a correspondence to all units.*

## The Medical Branch's Methodology for Calculating Hospital and Physician Costs Is Reasonable

The Medical Branch's methodology for calculating hospital and physician costs for the prison hospital in Galveston is reasonable.

However, it should be noted that we reviewed only the methodologies that the Medical Branch uses to track costs; we did not verify the accuracy of the costs themselves.

### Hospital and Physician Costs

Hospital and physician costs include the costs of the prison hospital in Galveston and the Medical Branch's faculty group practice associated with treating state inmates at the prison hospital.

In fiscal year 2005:

- The Medical Branch reported \$87.6 million in hospital and physician costs.
- The Health Sciences Center does not run its own hospital; the costs for the Regional Medical Facility at the Montford Unit in Lubbock were audited in conjunction with other cost categories.

For detailed cost information, see Appendix 2.

Hospital and physician costs for the prison hospital in Galveston are determined through an automated cost accounting system. This is necessary because the treatment of state prison inmates is performed through the same process as the treatment of other patients and it is impractical to track all of the costs associated with treating individual patients. The Medical Branch uses three sets of data in its cost accounting system: data for services provided by physicians, data for services provided by non-physicians (for example, nurses and lab technicians), and data for costs incurred by each department within the

Medical Branch's many hospitals (for example, costs for salaries, benefits, and supplies).

The Medical Branch's cost accounting system determines costs for an inmate's health care as follows:

- Each procedure performed on a patient is assigned a "relative value unit" (RVU) in the cost accounting system. The RVU determines the relative costs among different procedures and is based on the time, supply costs, and/or allocated overhead involved in performing a particular procedure.
- The number of different procedures performed in each hospital department is multiplied by each procedure's RVU to arrive at the total number of RVUs performed by each department.
- For each hospital department, total costs are divided by the total RVUs performed to arrive at the average cost of an RVU. The average cost for each procedure is the same for all patients, although the amounts billed to each patient or insurance provider might differ.
- To determine the total cost of treating state prison inmates (or any other group of patients), the total number of procedures performed on state prison inmates is multiplied by the appropriate RVUs and average RVU cost for each procedure.

## The Institutions' Methodologies for Calculating Pharmacy Costs Are Reasonable, but the Medical Branch Made Minor Errors in Its Calculation of Those Costs

The institutions' methodologies for calculating pharmacy costs are reasonable.

### Pharmacy Costs

Pharmacy costs include the costs of medicine provided to inmates for treatment of medical conditions.

In fiscal year 2005:

- The Medical Branch reported \$25.7 million in medicine purchases, maintenance, and operations.
- The Health Sciences Center reported \$6.2 million in medicine purchases.

For detailed cost information, see Appendix 2.

The Medical Branch operates a pharmacy in Huntsville that purchases and distributes medicine for state inmates at all units, including those served by the Health Sciences Center.

Prescriptions are submitted electronically by doctors at the unit clinics and reviewed by Medical Branch pharmacists for drug interactions and propriety for the inmate's diagnosis. The pharmacy uses a bar-coding system and electronic sorters to track and ship prescriptions to the prison units.

Most medicine is in pill form and is purchased in large quantities. These pills are repackaged into blister-packs, allowing individual doses to be given to inmates without contaminating the remaining pills. If blister-packed medicine is not used by the inmate and has not expired, it can be returned to

the Medical Branch pharmacy and reused for another inmate. The Medical Branch asserts that it saved approximately \$7 million in fiscal year 2005 through this process.

The Medical Branch and the Health Sciences Center pay different prices for medicine. This is because the Medical Branch qualifies for the federal government's Public Health Service (PHS) Section 340B Drug Pricing Program. This program enables the Medical Branch to obtain the lowest possible prices for its medicine. The Medical Branch qualifies for this program because it employs all of the doctors, owns a hospital, and owns the medical records. The Medical Branch's hospital is the only hospital in the country providing health care to a prison system that qualifies for this program. The Health Sciences Center does not qualify for this program, but the Medical Branch purchases medicine for the Health Sciences Center through a consortium (the Novation consortium), which enables the Medical Branch to obtain the lowest possible prices for the Health Sciences Center.

The Medical Branch made minor errors in its calculation of pharmacy costs.

The Medical Branch's pharmacy uses several automated systems to track its costs and inventory, including a mainframe at the Department of Criminal Justice that is able to retain only the most recent Novation purchase price for each type of medicine. As a result, the Medical Branch's pharmacy uses a number of manual processes to report pharmacy costs.

Our audit of processes used to compile pharmacy costs in September 2004 and January 2006 found a number of minor errors in the reported costs. These errors were primarily the result of manual errors and inconsistent or

incomplete data. The dollar amount of the errors was not significant; however, these errors demonstrate that errors could occur in the future, and the dollar amounts associated with future errors could be larger. It is also important to note that the Medical Branch's pharmacy has begun implementing a new automated system that will (1) allow multiple prices to be tracked for each medicine and (2) automate many of the manual processes in which problems were identified.

## Recommendations

The Medical Branch should:

- Review the results of all manual processes for inputting data into or using data from automated pharmacy systems for accuracy, and it should ensure that it maintains the supporting documentation.
- Review all existing data it uses to set up the new automated pharmacy system to ensure that data is complete and accurate.
- Configure its new automated pharmacy system to produce accurate information for reporting purposes with a minimal amount of manual effort.

## Management's Response

- *CMC concurs with the recommendation that manual processes should be reviewed for accuracy. Current processes require the gathering of information from multiple sources and systems within the Central Pharmacy, necessitating downloads and duplicate entry points in order to facilitate monthly management reporting on cost data. These manual systems have been necessary as the result of two (2) primary factors.*
  1. *The inclusion of UTMB's 340B pricing having to be kept separate and unique from the Texas Tech pricing structure.*
  2. *Reliance on a TDCJ mainframe distribution and inventory system that was developed more than 20 years ago.*

*As a result of some of the items noted during the State Audit, pharmacy accounting personnel have instituted new sorts and reviews as part of their quality control such as variance checks and reviews for no cost item entries. It is the goal of CMC that many of these manual processes and multiple systems be eliminated with the implementation of a new pharmacy system which should be fully installed within the next 12 to 18 months. CMC will continue to review all current data to insure data is complete and accurate in setting up the new automated Pharmacy systems.*

- *It is the goal of CMC to minimize all manual efforts as we configure and test the Pharmacy Replacement System. Code is currently being written to capture price information and bar code technology for scanning in all received goods is being implemented.*

Chapter 1-E

**The Institutions' Methodologies for Calculating the Cost of Off-Site Care Are Reasonable**

The institutions' methodologies for calculating their payments to providers of treatment outside of the prison units (for example, local hospitals and physicians) are reasonable. We did not identify any duplicate payments to providers.

<b>Offsite Costs</b>
Off-site costs include billings received from local hospitals and physicians for health care provided outside of the prison units.
In fiscal year 2005:
<ul style="list-style-type: none"> <li>▪ The Medical Branch reported \$20.0 million in off-site costs.</li> <li>▪ The Health Sciences Center reported \$9.8 million in off-site costs.</li> </ul>
For detailed cost information, see Appendix 2.

With the exception of treatment provided at the prison hospital in Galveston, both institutions are charged by hospitals and other medical providers for treating prisoners outside of the prison units. Both institutions maintain contracts with these local providers that attempt to allow the institutions to reduce billings to standard Medicare rates.

Chapter 1-F

**Institutions' Methodologies for Calculating Indirect Costs Are Reasonable, But the Medical Branch Made Minor Errors in Its Calculation of Those Costs**

<b>Indirect Costs</b>
Indirect costs include costs for functions that benefit multiple departments within an institution, such as human resources, accounting, information technology, and central administration.
In fiscal year 2005:
<ul style="list-style-type: none"> <li>▪ The Medical Branch reported \$12.2 million in indirect costs and \$3.9 million in allocated shared information technology service costs.</li> <li>▪ The Health Sciences Center reported \$4.6 million in indirect costs.</li> </ul>
For detailed cost information, see Appendix 2.

The institutions' methodologies for calculating the indirect costs associated with providing health care to state prison inmates are reasonable. Both the Medical Branch and the Health Sciences Center compute their indirect cost allocation rates as a percent of revenue (instead of as a percent of expenses) and then apply these rates to the revenue they received from the Correctional Managed Health Care Committee. This is not the standard methodology for allocating indirect costs (indirect costs are typically computed as a percent of direct expenses), but cost accounting guidance indicates that any reasonable method may be used. Our analysis indicates that there would be no significant difference in the institutions' indirect cost allocations if they used a more standard methodology.

The institutions' indirect cost rates also are reasonable when compared with federal indirect cost reimbursement rates. The federal rates are typically negotiated every few years for grants received from each cognizant federal agency. Table 1 compares each institution's indirect cost rate for providing inmate health care with its federal indirect cost reimbursement rate.

Table 1

Comparison of Institutions' Indirect Costs Rates with Federal Indirect Cost Rates		
Institution	Inmate Health Care Indirect Cost Rate	Negotiated Federal Indirect Cost Reimbursement Rate
The University of Texas Medical Branch at Galveston	Approximately 7 percent of revenue <sup>a</sup>	24 to 51 percent of expenses, depending on the federal grant
Texas Tech University Health Sciences Center	6 percent of revenue	26 percent of expenses
<sup>a</sup> The 7 percent rate includes 5 percent of revenue plus an additional amount for shared information technology services.		

Source: State Auditor's Office analysis of information provided by the institutions.

#### How institutions compute indirect costs.

The Medical Branch sets aside 5 percent of its revenue from the Correctional Managed Health Care Committee to cover institution-wide indirect costs. This is consistent with the Medical Branch's practice of allocating indirect costs to each of the institution's revenue-generating departments at a rate of 5 percent of the revenue generated externally. These indirect costs include expenses from departments such as institutional administration, finance, and human resources.

The Medical Branch's indirect costs also include allocations of the costs for specific shared information technology services. If a portion of these costs can be specifically attributed to a certain department, then those costs are charged to that department; the remaining costs are allocated to departments based upon the number of employees. The addition of the cost of these services brings the total indirect cost rate to approximately 7 percent.

The Health Sciences Center sets aside 6 percent of its revenue from the Correctional Managed Health Care Committee to cover institution-wide indirect costs. However, this indirect cost rate is not based upon actual indirect costs. To calculate this indirect cost rate, the Health Sciences Center starts with its federal indirect cost calculation and judgmentally determines the percentage of each cost category that applies to inmate health care. While this is an unusual approach to determining an indirect cost allocation percentage, the result appears to be reasonable.

The Medical Branch understated its indirect costs for fiscal year 2005 and the first half of fiscal year 2006 by a net \$65,652.

Although the Medical Branch's methodology for calculating indirect costs is reasonable, it made minor errors in its calculation of those costs. This occurred because the Medical Branch did not allocate the cost of its contract for information technology infrastructure (for example, e-mail, networking, Internet, help desk support, firewall protection and antivirus protection) correctly according to each department's usage.

The Medical Branch does not perform a review of the allocation of these costs. As a result, the Medical Branch understated its indirect costs for correctional managed health care by \$75,317 in fiscal year 2005 and overstated indirect costs by \$9,665 in the first half of fiscal year 2006. This resulted in a net \$65,652 understatement in fiscal year 2005 and the first half of fiscal year 2006.

### Recommendation

The Medical Branch should review its calculation of indirect cost allocations for accuracy prior to posting those allocations in its accounting system.

### Management's Response

*UTMB agrees with the recommendation and will establish appropriate controls and reviews to enhance the accuracy of recorded allocations.*

Chapter 1-G

## The Correctional Managed Health Care Committee and the Institutions Have Addressed Issues in a Previous State Auditor's Office Report

During the course of our audit, we also noted that the institutions and the Correctional Managed Health Care Committee have made certain changes in response to our November 2004 report (*An Audit Report on Management of Correctional Managed Health Care Contracts*, State Auditor's Office Report No. 05-012, November 2004). Specifically:

### The Correctional Managed Health Care Committee

Inmate health care is financed through direct appropriations to the Department of Criminal Justice. These funds are then passed to the Correctional Managed Health Care Committee, which pays each of the institutions a capitated rate for each inmate in the state prisons they serve.

- The contracts between the Correctional Managed Health Care Committee and the institutions were changed beginning in fiscal year 2006:

- ♦ The contracts now require the institutions to submit monthly financial reports to the Correctional Managed Health Care Committee in an agreed-upon format.
- ♦ The contracts now include a list of unallowable expenses.
- ♦ The contracts now include a “right to audit” provision, allowing the State Auditor’s Office, the Correctional Managed Health Care Committee, or any successor committee to conduct an audit or investigation related to the funds received for providing health care to inmates.
- ♦ The contracts now commit the institutions’ internal auditors to provide a minimum number of internal audit hours each year (500 for the Medical Branch and 200 for the Health Sciences Center) for correctional health care.
- The Correctional Managed Health Care Committee has hired a finance manager to review the institutions’ monthly financial reports and inquire about questionable expenses.
- The Correctional Managed Health Care Committee and the Medical Branch have entered into a memorandum of understanding that covers the administrative functions that the Medical Branch provides to the Correctional Managed Health Care Committee.

## Background Information on Inmate Health Care Costs in Texas

“Managed care” is typically defined as any arrangement for health care in which an organization (such as a health maintenance organization, another type of doctor-hospital network, or an insurance company) acts as

### History of Correctional Managed Health Care in Texas

- In 1976, the United States 5th Circuit Court of Appeals ruled that “deliberate indifference by prison personnel to a prisoner’s serious illness or injury constitutes cruel and unusual punishment contravening the Eighth Amendment.”
- In 1980, the United States District Court ruled that the State’s prison system was unconstitutional. One of the claims upheld in the case that prompted this ruling was that health care was inadequate. The case was settled in 2002.
- In 1993, the Comptroller of Public Accounts published its Texas Performance Review report *Against the Grain*, which recommended that a managed health care system be established for state prison inmates. At that time, health care costs for state prison inmates had risen from \$2,262 per inmate in 1989 (\$6.20 per inmate per day) to \$2,839 per inmate in 1992 (\$7.76 per inmate per day), an annual increase of 8.5 percent.
- In 1993, the 73rd Legislature created the Managed Health Care Advisory Committee (now the Correctional Managed Health Care Committee) to coordinate the efforts of the Department of Criminal Justice, the Medical Branch, and the Health Sciences Center to deliver health care to state prison inmates. The Legislature has made several adjustments to this committee since its inception, including changing its name, membership, and authority.

intermediary between the person seeking care and the physician.<sup>1</sup> The State’s current arrangement for providing health care to state inmates does not fit this standard definition because there is not a separate entity, network, or insurance company, between the inmate and the institutions that provide the health care. However, both the Medical Branch and the Health Sciences Center review doctors’ requests to perform non-emergency procedures on inmates outside of the units. This partially fulfills the intermediary function described in the standard definition.

Our audit objectives did not include reviewing the quality of the health care provided to inmates. According to *An Evaluation of Correctional Health Care Services*, a January 2005 report prepared by the Texas Medical Foundation (a private nonprofit organization of licensed physicians contracted by the Medical Branch), the Medical Branch “consistently meets or exceeds community standards for managed care organizations.”<sup>2</sup>

The funding process for correctional managed health care in Texas.

Inmate health care is financed through direct appropriations to the Department of Criminal Justice. These funds are then passed to the Correctional Managed Health Care Committee, which pays each of the institutions a capitated rate for each inmate in the state prisons they serve. Table 2 shows the appropriations, the institutions’ related expenses, the average inmate population, and the cost per inmate per day (a standard benchmarking measure) for fiscal year 2002 through the first half of fiscal year 2006.

<sup>1</sup> *The American Heritage Stedman’s Medical Dictionary*, Houghton Mifflin, 2002. Accessed at <http://dictionary.reference.com/>.

<sup>2</sup> *An Evaluation of Correctional Health Care Services*, Texas Medical Foundation, January 2005. Accessed at <http://www.utsystem.edu/news/2005/BORMar2005-Presentations/PrisonHealthCare-TMFFullReport031005.pdf>.

Table 2

Funding and Expenditures for Inmate Health Care						
Fiscal Year	Appropriations for Correctional Managed Health Care <sup>a</sup>	Appropriations for Staff Benefits <sup>b</sup>	Institutional Expenses <sup>c</sup>	Average Inmate Population	Average Cost per Inmate per Year	Average Cost per Inmate per Day
2002	\$ 325,763,779	\$ 41,559,451	\$ 381,227,190	131,819	\$ 2,892.05	\$ 7.92
2003	\$ 330,705,779	\$ 42,802,553	\$ 380,991,407	136,566	\$ 2,789.80	\$ 7.64
2004	\$ 342,158,280 <sup>e</sup>	\$ 37,519,563	\$ 392,423,685	144,975	\$ 2,706.84	\$ 7.40
2005	\$ 346,421,360 <sup>e</sup>	\$ 40,104,603	\$ 411,877,939	150,759	\$ 2,732.04	\$ 7.49
2006 <sup>d</sup>	\$ 375,750,820 <sup>e</sup>	\$ 20,798,690	\$ 209,503,613	151,185	\$ 2,794.46	\$ 7.66

<sup>a</sup> Appropriations are made to the Department of Criminal Justice, which retains a portion and passes the remainder to the Correctional Managed Health Care Committee. The Correctional Managed Health Care Committee retains a portion and uses the remainder to pay the Medical Branch and Health Sciences Center based upon a capitated rate.

<sup>b</sup> Staff benefits include health insurance, employer's Social Security, and retirement contributions and are funded through appropriations made directly to the institutions and through appropriations institutions receive from the Comptroller of Public Accounts, the Employees Retirement System, and the Teacher Retirement System.

<sup>c</sup> Expenses are funded by payments from the Correctional Managed Health Care Committee, appropriated staff benefits, supplemental appropriations, and other sources. Expenses for the Medical Branch include depreciation, while expenses for the Health Sciences Center include capital outlay.

<sup>d</sup> Fiscal year 2006 staff benefits and expenses are for the first six months of the year.

<sup>e</sup> Appropriations include amounts for treating inmates in private prisons (\$10,209,157 in 2004; \$16,272,237 in 2005; and \$1,981,512 in 2006) that were transferred from other strategies of the Department of Criminal Justice. Health care of inmates in private prisons became the responsibility of the Correctional Managed Health Care Committee on January 16, 2004.

Sources: General Appropriations Acts from the 77th, 78th, and 79th Legislatures; financial reports provided to the Correctional Managed Health Care Committee from the institutions.

While the institutions' expenses and the inmate population have increased each year, the average cost per inmate per day was about the same in fiscal year 2006 as it was in fiscal year 2003.

#### Comparison of costs in Texas with other benchmarks.

Each state provides health care to its inmates in different ways. In Texas, inmates receive medical health care, mental health care, and dental health care. Table 3 shows the most recent costs per inmate per day of the other nine most populous states and three neighboring states and compares those costs with Texas's cost for that year.

As Table 3 shows, the cost in Texas was less than the cost in most other states in the year indicated. These differences might be partially explained by (1) the fact that other states may provide different types and levels of care and may use different methods of delivering the care and (2) differences in the cost of living across states.

Table 3

Cost of Inmate Health Care in Texas Compared with Other States					
State	Fiscal Year	Health Care Expenses	Inmate Population	Cost Per Inmate Per Day <sup>l</sup>	Texas's Cost Per Inmate Per Day for the Same Year
California <sup>a</sup>	2006	\$ 1,037,722,000	171,287	\$ 16.60	\$ 7.66
New York <sup>a</sup>	2006	\$ 325,500,000	62,980	\$ 14.16	\$ 7.66
Florida <sup>b</sup>	2005	\$ 315,486,894	82,952	\$ 10.66	\$ 7.49
Illinois <sup>c</sup>	2006	\$ 131,898,293	46,937	\$ 7.70	\$ 7.66
Pennsylvania <sup>d</sup>	2005	Unavailable	42,446	\$ 12.02	\$ 7.49
Ohio <sup>e</sup>	2005	\$ 202,270,983	44,270	\$ 12.63	\$ 7.49
Michigan <sup>f</sup>	2004	\$ 254,025,269	49,179	\$ 13.51	\$ 7.40
New Jersey <sup>g</sup>	2005	Unavailable	26,239	\$ 13.87	\$ 7.49
Georgia <sup>h</sup>	2004	\$ 149,005,148	48,619	\$ 9.31	\$ 7.40
Louisiana <sup>i</sup>	2006	\$ 46,105,835	15,929	\$ 7.93	\$ 7.66
Oklahoma <sup>j</sup>	2005	\$ 60,800,591	23,130	\$ 7.20	\$ 7.49
New Mexico <sup>k</sup>	2004	\$ 32,033,300	6,242	\$ 14.06	\$ 7.40

<sup>a</sup> Expenses are budgeted for the fiscal year, population is as of fiscal year end.

<sup>b</sup> Expenses are budgeted for the fiscal year, population is the daily average for the fiscal year, cost per day is as the state reported and excludes contracted facilities.

<sup>c</sup> Expenses and population include adults and juveniles and were obtained through an interview with state Department of Corrections staff.

<sup>d</sup> Population is as of December 31, 2005, cost per day is computed from the state's reported annual cost and includes community corrections centers and group homes.

<sup>e</sup> Expenses are for medical and mental health services, population is as of fiscal year end, cost per day is as the state reported for medical and mental health services.

<sup>f</sup> Expenses are operating expenditures for health care and consent decree, population is the average for the fiscal year based upon service population, cost per day is computed from the average cost per year.

<sup>g</sup> Population includes residents in institutions and satellites as of January 11, 2005.

<sup>h</sup> Expenses include physical and mental health, population is as of fiscal year end, and the cost per day is as reported by the state.

<sup>i</sup> Expenses include only care provided inside public state facilities, population in public state facilities is as of fiscal year end.

<sup>j</sup> Expenses include total medical services costs, population is the average for state facilities for the fiscal year.

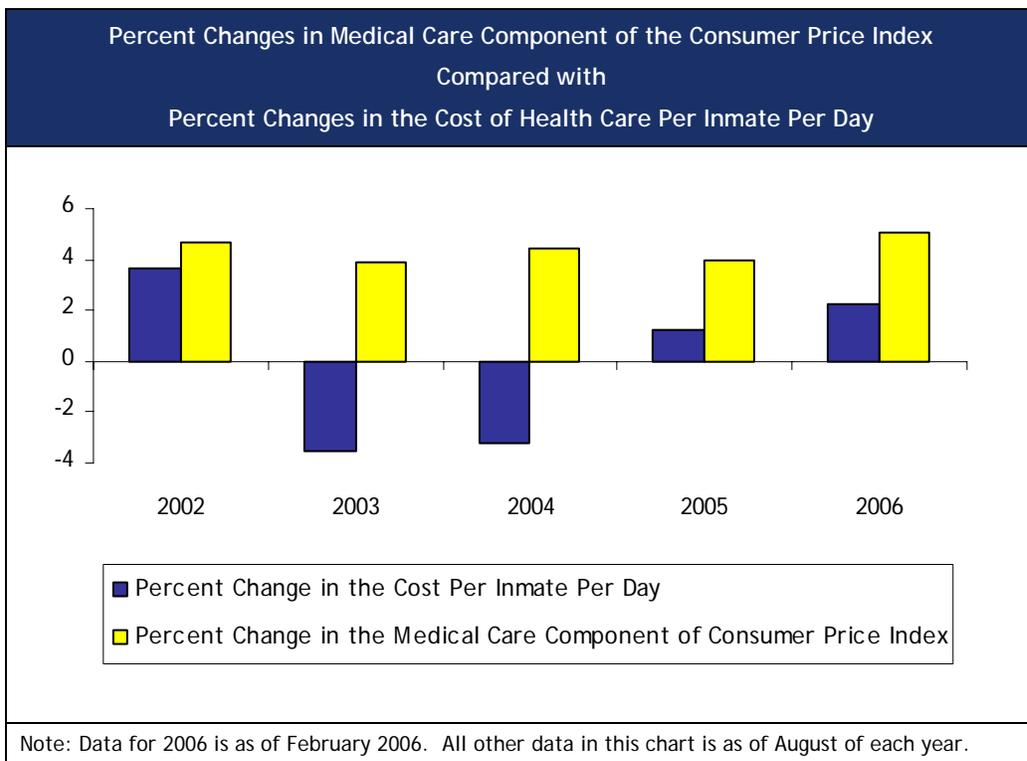
<sup>k</sup> Expenses are for the Corrections Department's Health Services Bureau, population is the daily average for the fiscal year.

<sup>l</sup> Data for health care expenses, inmate population, and cost per inmate per day came from different sources. For this reason, the cost per inmate per day cannot be recomputed using the health care expenses and inmate population shown in this table.

Source: Information provided by other states or displayed on other states' Web sites.

Although health care costs in the United States have been increasing every year, the cost of health care per inmate per day in Texas has increased in only three of the past five years. Figure 1 compares the change in the cost per inmate per day to the change in the medical care component of the Consumer Price Index over the past five years.

Figure 1



Source: U.S. Department of Labor, Bureau of Labor Statistics, Report # CUUR0000SAM on <http://data.bls.gov/cgi-bin/surveymost?cu>; financial reports provided to the Correctional Managed Health Care Committee from the institutions.

### Trends in costs and current inmate population

The Correctional Managed Health Care Committee has testified before the Legislature that the inmate population is getting older. Table 4 shows the changes in inmate age range populations since August 2002. Note that the percentage of inmates under age 40 is decreasing and the percentage of inmates age 40 and older is increasing.

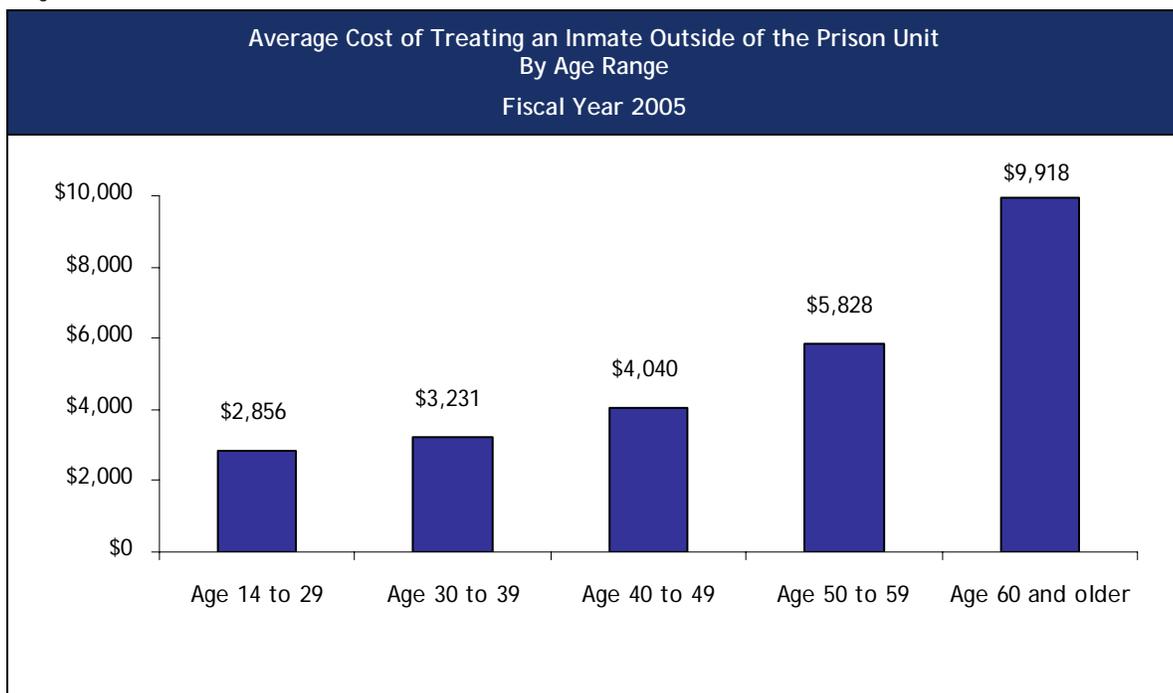
Table 4

Trends in Inmate Age					
Age Range	Percent of Inmate Population				
	As of 8/31/02	As of 8/31/03	As of 8/31/04	As of 8/31/05	As of 6/30/06
14 to 29	33.7 %	32.9 %	32.5 %	32.0 %	31.5 %
30 to 39	32.4 %	31.6 %	30.7 %	30.0 %	29.5 %
40 to 49	24.3 %	25.3 %	25.8 %	26.2 %	26.2 %
50 to 59	7.5 %	8.0 %	8.6 %	9.4 %	10.1 %
60 and older	2.0 %	2.2 %	2.3 %	2.5 %	2.6 %
Total Population	146,766	148,152	150,709	152,213	152,474

Source: Executive Administrative Services, Department of Criminal Justice.

Figure 2 shows the average cost of treating an inmate outside of the prison unit (that is, at local hospitals and physicians and at the prison hospital in Galveston) by age range in fiscal year 2005. Note that the cost of treatment increases significantly when inmates are more than 50 years old.

Figure 2



Sources: Data from the Medical Branch's and Health Sciences Center's automated systems.

Table 5 shows the trend in number of cases and costs for treating selected diseases.

Table 5

Trends in Selected Diseases Treated (Dollar amounts are in millions)										
	Fiscal Year 2002		Fiscal Year 2003		Fiscal Year 2004		Fiscal Year 2005		Fiscal Year 2006 <sup>a</sup>	
Disease	Number of Patients Treated	Cost	Number of Patients Treated	Cost						
Heart Disease	1,128	\$ 7.8	1,311	\$ 8.0	1,359	\$ 9.2	1,406	\$10.3	801	\$ 5.6
Cancer	829	\$ 7.5	886	\$ 8.0	979	\$ 8.1	919	\$ 8.7	542	\$ 5.1
AIDS / HIV	606	\$ 3.1	686	\$ 2.8	564	\$ 2.8	344	\$ 2.5	189	\$ 1.3
Diabetes	343	\$ 1.3	301	\$ 1.3	410	\$ 1.4	377	\$ 1.6	221	\$ 0.7
Kidney Disease	357	\$ 1.5	389	\$ 0.9	505	\$ 1.7	494	\$ 1.7	242	\$ 0.7
Hypertension	424	\$ 1.0	435	\$ 0.9	485	\$ 1.2	495	\$ 1.3	282	\$ 0.7
Hepatitis C	870	\$ 0.7	1,056	\$ 0.8	967	\$ 0.7	598	\$ 0.6	286	\$ 0.1

<sup>a</sup> Data for fiscal year 2006 is through February 28, 2006.

Source: Data from the Medical Branch's and Health Sciences Center's automated systems.

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The audit objective was to determine the methodologies the University of Texas Medical Branch at Galveston (Medical Branch) and the Texas Tech University Health Sciences Center (Health Sciences Center) use to allocate the overhead costs associated with providing inmate health care.

### **Scope**

The audit focused on the institutions' methodologies surrounding the compilation of costs incurred in providing services under their contracts with the Correctional Managed Health Care Committee. These contracts are managed by the Correctional Managed Care Department at the Medical Branch and by the Correctional Managed Health Care Department at the Health Sciences Center. We audited processes for the following costs the institutions reported they incurred from September 2004 through February 2006:

- Indirect costs.
- Salaries for on-site treatment.
- Contracts for on-site treatment (Health Sciences Center only).
- Charges for the prison hospital in Galveston (Medical Branch only).
- Charges from the Medical Branch pharmacy (Medical Branch only).
- Billing payments for off-site treatment.
- Preparation of the financial reports submitted to the Correctional Managed Health Care Committee.

### **Methodology**

The audit methodology included interviewing staff at the Department of Criminal Justice, the Correctional Managed Health Care Committee, the Medical Branch, and the Health Sciences Center; reviewing documentation for financial amounts institutions reported to the Correctional Managed Health Care Committee; and analyzing payroll records and patient billing data to determine compliance with the institutions' policies and procedures.

Information collected and reviewed included the following:

- Information from interviews of staff at the Department of Criminal Justice, the Correctional Managed Health Care Committee, the Medical Branch, and the Health Sciences Center.
- Annual financial reports submitted by the Medical Branch and the Health Sciences Center to the Correctional Managed Health Care Committee.
- Data on inmates from the Department of Criminal Justice.
- Personnel and payroll transaction data on employees in the correctional managed care departments at the Medical Branch and the Health Sciences Center.
- Information on contracts with local hospitals at the Health Sciences Center.
- Data on payments of billings for off-site health care at the Medical Branch and the Health Sciences Center.
- Hospital patient and physician salary data at the Medical Branch.
- Data from the Medical Branch's hospital cost accounting system.
- Data, purchase invoices, and manual reports from the Medical Branch's pharmacy.
- Financial data from the accounting systems of the Medical Branch and the Health Sciences Center.
- Support for indirect cost allocation calculations at the Medical Branch and the Health Sciences Center.
- Prior audit reports related to inmate health care issued by the State Auditor's Office and the Medical Branch's Audit Services Division.

Procedures and tests conducted included the following:

- Determined whether the amounts in the financial statements provided to the Correctional Managed Health Care Committee by the Medical Branch and the Health Sciences Center were supported by each institution's accounting system.
- Reviewed each institution's recording of receipts from the Correctional Managed Health Care Committee to determine whether the funds were only being used for correctional health care.
- Reviewed support for each institution's request for supplemental appropriations during the 79th Legislature.

- Tested payroll transactions in each institution's correctional managed care department for unauthorized, fictitious, and terminated employees.
- Tested payroll transactions for employees in each institution's correctional managed care department whose salaries were allocated across multiple contracts for proper support and allocation.
- Reviewed capitated rates for contracts between the Health Sciences Center and local hospitals for reasonableness.
- Analyzed claims paid for off-site health care for inmates at both institutions to ensure that each patient was a state inmate, the procedures were allowable based upon age and gender, the fees paid were reasonable, the claims were not split, and other errors did not occur.
- Reviewed the processing of the Medical Branch's hospital cost accounting system for completeness and accuracy.
- Tested the data in the Medical Branch's hospital patient system to ensure that patients coded as state inmates were really state inmates.
- Reviewed the controls over user access and data input to the Medical Branch's hospital patient and physician salary systems.
- Reviewed and tested the processes used at the Medical Branch's pharmacy to compile the costs of medicine at each state prison unit.
- Reviewed and tested support for each institution's indirect cost allocations.

Criteria used included the following:

- Contracts between the Correctional Managed Health Care Committee and the institutions for fiscal years 2005 and 2006.
- Policies and procedures at the Medical Branch and the Health Sciences Center.

### **Project Information**

Audit fieldwork was conducted from April 2006 through August 2006. This audit was conducted in accordance with generally accepted government auditing standards.

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

- Anthony W. Rose, MPA, CPA, CGFM (Project Manager)
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- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Dave Gerber, MBA, CIA, CISA (Audit Manager)

## *Institutions' Financial Reports for Fiscal Year 2005 and the First Half of Fiscal Year 2006*

### Unaudited Information from Institutions' Financial Reports for Fiscal Year 2005

	The University of Texas Medical Branch at Galveston	Texas Tech University Health Sciences Center	Total
Average Inmate Population	119,322	31,437	150,759
<b>Revenue:</b>			
Capitation Earned	\$269,218,789	\$72,970,955	\$342,189,744
State Paid Staff Benefits	35,017,086	5,087,517	40,104,603
Emergency Appropriation for Current Year	19,115,330	1,784,670	20,900,000
Other Miscellaneous Revenue	153,397		153,397
<b>Total Revenue</b>	<b>323,504,602</b>	<b>79,843,142</b>	<b>403,347,744</b>
<b>Operating Expenses:</b>			
<b>On Site Services:</b>			
Salaries	130,596,715	18,432,539	149,029,254
Benefits	34,167,337	4,454,843	38,622,180
Maintenance and Operations (1)	13,737,293	1,362,556	15,099,849
Professional Services		2,061,459	2,061,459
Contracted Units/Services	342,647	21,675,104	22,017,751
Travel	603,049	79,427	682,476
Telemedicine (2)	898,805	1,053,945	1,952,750
Capital Equipment (>\$5,000)		332,325	332,325
Depreciation Expense	1,747,128		1,747,128
<b>Subtotal Onsite Expenses</b>	<b>182,092,974</b>	<b>49,452,198</b>	<b>231,545,172</b>
<b>Pharmacy Services:</b>			
Salaries	3,129,486	888,488	4,017,974
Benefits	1,051,477	65,703	1,117,180
Pharmaceuticals, Maintenance and Operations (3)	25,723,304	6,732,582	32,455,886
Travel	11,219	18,004	29,223
<b>Subtotal Pharmacy Expenses</b>	<b>29,915,486</b>	<b>7,704,777</b>	<b>37,620,263</b>

(continued on next page)

Notes:

(1) Amount for the Medical Branch includes shared information technology services that are discussed in Chapter 1-F as indirect costs.

(2) Amount for the Health Sciences Center includes implementation costs for the electronic medical records system.

(3) Amount for the Health Sciences Center includes \$6,217,851 for pharmaceutical purchases and \$514,731 for maintenance and operations.

Unaudited Information from Institutions' Financial Reports for Fiscal Year 2005

	The University of Texas Medical Branch at Galveston	Texas Tech University Health Sciences Center	Total
<b>Offsite Expenses:</b>			
Freeworld Provider Services	19,998,910	9,838,113	29,837,023
University Physician Services	14,882,474	1,049,307	15,931,781
UTMB Hospital Services	72,710,231		72,710,231
TTUHSC Regional Medical Facility			
Salaries		3,237,249	3,237,249
Benefits		867,984	867,984
Maintenance and Operations		679,934	679,934
Professional Services		1,237,145	1,237,145
Contracted Units/Services		1,455,557	1,455,557
Travel		5,057	5,057
<b>Subtotal Offsite Expenses</b>	<b>107,591,615</b>	<b>18,370,346</b>	<b>125,961,961</b>
<b>Indirect Costs</b>	<b>12,194,805</b>	<b>4,555,738</b>	<b>16,750,543</b>
<b>Total Operating Expenses</b>	<b>331,794,880</b>	<b>80,083,059</b>	<b>411,877,939</b>
<b>Operating Income (Loss)</b>	<b>\$ (8,290,278)</b>	<b>\$ (239,917)</b>	<b>\$ (8,530,195)</b>
Net Non-Operating Revenues (Expenses)	(89,598)		(89,598)
Emergency Appropriation for Prior Year	11,300,000		11,300,000
<b>Total Revenues Less Expenses</b>	<b>\$ 2,920,124</b>	<b>\$ (239,917)</b>	<b>\$ 2,680,207</b>
Add: Depreciation Expense	1,747,128		1,747,128
Less: Capital Expenditures	(470,946)		(470,946)
<b>Total Revenue Less Expenses, Excluding Depreciation and Including Capital Expenditures</b>	<b>\$ 4,196,306</b>	<b>\$ (239,917)</b>	<b>\$ 3,956,389</b>

Unaudited Information from Institutions' Financial Reports for September 2005 through February 2006

	The University of Texas Medical Branch at Galveston	Texas Tech University Health Sciences Center	Total
Average Inmate Population	119,728	31,457	151,185
<b>Revenue:</b>			
Capitation Earned	\$148,170,528	\$37,622,922	\$185,793,450
State Paid Staff Benefits	18,140,362	2,658,328	20,798,690
Other Miscellaneous Revenue	140,732		140,732
<b>Total Revenue</b>	<b>166,451,622</b>	<b>40,281,250</b>	<b>206,732,872</b>
<b>Operating Expenses:</b>			
<b>On Site Services:</b>			
Salaries	64,941,007	9,452,292	74,393,299
Benefits	17,169,198	2,326,734	19,495,932
Maintenance and Operations (1)	8,180,852	647,275	8,828,127
Professional Services		1,270,357	1,270,357
Contracted Units/Services		10,750,391	10,750,391
Travel	284,184	37,022	321,206
Telemedicine (2)	1,500,484	363,223	1,863,707
Capital Equipment (>\$5,000)		5,584	5,584
Depreciation Expense	823,817		823,817
<b>Subtotal Onsite Expenses</b>	<b>92,899,542</b>	<b>24,852,878</b>	<b>117,752,420</b>
<b>Pharmacy Services:</b>			
Salaries	1,731,404	510,823	2,242,227
Benefits	575,976	37,556	613,532
Pharmaceuticals, Maintenance and Operations (3)	13,516,033	3,685,246	17,201,279
Travel	8,766	6,689	15,455
<b>Subtotal Pharmacy Expenses</b>	<b>15,832,179</b>	<b>4,240,314</b>	<b>20,072,493</b>

(continued on next page)

Notes:

(1) Amount for the Medical Branch includes shared information technology services that are discussed in Chapter 1-F as indirect costs.

(2) Amount for the Health Sciences Center includes implementation costs for the electronic medical records system.

(3) Amount for the Health Sciences Center includes \$3,401,911 for pharmaceutical purchases and \$283,335 for maintenance and operations.

Unaudited Information from Institutions' Financial Reports for September 2005 through February 2006

	The University of Texas Medical Branch at Galveston	Texas Tech University Health Sciences Center	Total
<b>Offsite Expenses:</b>			
Freeworld Provider Services	9,581,912	6,008,768	15,590,680
University Physician Services	7,534,195	364,938	7,899,133
UTMB Hospital Services	36,154,864		36,154,864
TTUHSC Regional Medical Facility			
Salaries		1,651,322	1,651,322
Benefits		459,630	459,630
Maintenance and Operations		289,869	289,869
Professional Services		569,238	569,238
Contracted Units/Services		811,200	811,200
Travel		2,588	2,588
<b>Subtotal Offsite Expenses</b>	<b>53,270,971</b>	<b>10,157,553</b>	<b>63,428,524</b>
<b>Indirect Costs</b>	<b>5,907,947</b>	<b>2,342,229</b>	<b>8,250,176</b>
<b>Total Operating Expenses</b>	<b>167,910,639</b>	<b>41,592,974</b>	<b>209,503,613</b>
<b>Operating Income (Loss)</b>	<b>\$ (1,459,017)</b>	<b>\$ (1,311,724)</b>	<b>\$ (2,770,741)</b>
Net Non-Operating Revenues (Expenses)	18,985		18,985
<b>Total Revenues Less Expenses</b>	<b>\$ (1,440,032)</b>	<b>\$ (1,311,724)</b>	<b>\$ (2,751,756)</b>
Add Depreciation Expense	823,817		823,817
Less Capital Expenditures	(23,924)		(23,924)
<b>Total Revenue Less Expenses, Excluding Depreciation and Including Capital Expenditures</b>	<b>\$ (640,139)</b>	<b>\$ (1,311,724)</b>	<b>\$ (1,951,863)</b>

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Recent SAO Work		
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06-014	An Audit Report on Financial System Controls at Texas Tech University	November 2005

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The Honorable Jim Keffer, House Ways and Means Committee

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