



John Keel, CPA
State Auditor

An Audit Report on

Correctional Managed Health Care at The Texas Tech University Health Sciences Center

February 10, 2011

Members of the Legislative Audit Committee:

The Texas Tech University Health Sciences Center (TTUHSC) reported that it will experience a \$6.0 million deficit in providing correctional managed health care services to offenders in fiscal years 2010 and 2011. In fiscal year 2009, TTUHSC experienced a \$38,496 surplus after receiving \$1.6 million in supplemental appropriations. In fiscal year 2010, TTUHSC management reported that offsite hospital, ambulance, and specialty care costs had a significant effect on TTUHSC's reported deficit (see Table 1 in the attachment to this letter for additional details).

The State Auditor's Office's audit of TTUHSC identified issues that were similar to the issues identified at the University of Texas Medical Branch at Galveston (see *An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston*, State Auditor's Office Report No. 11-017, February 2011). Those issues may have a direct effect on the deficit that TTUHSC reported and are summarized below.

Indirect Costs. In fiscal years 2009 and 2010, TTUHSC charged its contract with the Correctional Managed Health Care Committee for indirect costs totaling \$11.8 million. TTUHSC calculates those indirect costs at an estimated 6 percent of total revenues. However, TTUHSC did not provide support showing that the administrative costs associated with providing offender health care were equivalent to 6 percent of total revenues. The manner in which TTUHSC calculates indirect costs could have a significant effect on whether TTUHSC experiences a surplus or a deficit.

Salaries. According to information TTUHSC provided, while projecting a deficit of \$2.0 million in fiscal year 2010, TTUHSC also awarded \$1.1 million in salary increases in the form of merits, equity adjustments, and pay plan adjustments to its correctional managed health care staff. The annual salary increases per individual ranged from \$374 to \$11,630. Of the \$1.1 million in salary increases, \$112,503 (approximately 10 percent) was awarded to staff who provide administrative support under the managed health care contract.

Background Information

The Department of Criminal Justice contracts with the Correctional Managed Health Care Committee to provide offender health care.

The Correctional Managed Health Care Committee serves as the oversight and coordination authority for the delivery of health care to offenders. Texas Government Code, Chapter 501, established the primary mission and related authority of the Correctional Managed Health Care Committee.

The Correctional Managed Health Care Committee then contracts with the University of Texas Medical Branch at Galveston and the Texas Tech University Health Sciences Center to provide health care services to offenders.

The State Auditor's Office has issued a separate report on the University of Texas Medical Branch at Galveston (see *An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston*, State Auditor's Office Report No. 11-017, February 2011).

Source: Correctional Managed Health Care Committee.

SAO Report No. 11-019

Allowable Costs. TTUHSC had support for almost all expenditures auditors tested related to the reported deficits. However, in fiscal year 2010, TTUHSC's correctional managed health care unit (TTUHSC-CMC Division) spent at least \$52,465 for employee benefits not authorized by the contract. (See Section 4 of the attachment to this letter for auditors' methodology for auditing employee benefits.) Due to a lack of clear guidance in the contract between TTUHSC and the Correctional Managed Health Care Committee, auditors were unable to determine whether \$159,082 in fiscal year 2010 expenditures were reasonable and necessary to providing offender health care.

Reimbursement Amounts. The majority of TTUHSC's expenditures related to offender health care are associated with TTUHSC's contracts with medical facilities or medical professionals. The contracts specify agreed-upon reimbursement amounts for providing services. For example:

- TTUHSC has 213 offsite professional services contracts through which providers offer offender health care. TTUHSC reimburses approximately 67 percent of those 213 providers based on the Medicare fee schedule.
- TTUHSC reimburses most offsite hospitals or facilities with which it contracts to provide offender health care at rates based on the Medicare fee schedule.
- TTUHSC reimburses nine local community hospitals with which it contracts to provide onsite health care to offenders at capitated rates that range from \$1.86 to \$3.57 per patient per day.

Organizational Structure. TTUHSC has established TTUHSC-CMC Division as a department within TTUHSC. That department operates under the direction of an executive director of administration and an executive medical director. The Correctional Managed Health Care Committee does not participate in the day-to-day operations of providing offender health care at TTUHSC. (See Section 2 of the attachment to this letter for an organizational chart.)

In a 2007 report¹, the State Auditor's Office recommended that TTUHSC continue its efforts to replace its existing financial management system with a new system. TTUHSC implemented a new financial accounting system in September 2008.

The information systems TTUHSC uses to report information and generate financial reports on correctional managed health care are generally secure and provide complete and accurate information. However, TTUHSC does not maintain documentation to support the test results for the procedures it performed on certain information systems prior to implementation and upgrade.

¹ See *An Audit Report on Correctional Managed Health Care Funding Requirements*, State Auditor's Office Report No. 07-017, March 2007.

Recommendations

TTUHSC should:

- Maintain documentation to support indirect costs for offender health care and ensure that it charges only reasonable and authorized direct and indirect expenditures to its contract with the Correctional Managed Health Care Committee.
- Obtain approval from the Legislative Budget Board before charging any indirect costs to TTUHSC-CMC Division and using funds appropriated for the purpose of providing offender health care to cover those costs.
- Seek prior approval from the Correctional Managed Health Care Committee and/or the Legislative Budget Board before TTUHSC-CMC Division awards salary increases to its employees using funds appropriated for offender health care.
- Ensure transparency in its process for determining reimbursement amounts for professional services, local community hospitals, and other contracted hospital services by annually providing proposed reimbursement amounts, the methodology applied, and related supporting documentation to:
 - ♦ The executive director of the Correctional Managed Health Care Committee for review and written approval.
 - ♦ The Health and Human Services Commission's rate-setting division for its review and comment.
 - ♦ The Legislative Budget Board for its review and written approval prior to expending any appropriated funds for the purpose of providing offender health care.
- Maintain documentation for the test results of procedures performed for certain information systems prior to implementation and upgrade.

The Legislature may consider requiring TTUHSC to:

- Annually obtain a review of reimbursement amounts from the Health and Human Services Commission's rate-setting division and from the Legislative Budget Board.
- Annually obtain written approval from the Legislative Budget Board before implementing TTUHSC-CMC Division reimbursement amounts.
- Publish proposed TTUHSC-CMC Division reimbursement amounts, rates, and the associated methodology in the *Texas Register*.

The Legislature also may wish to consider determining the extent to which or whether TTUHSC-CMC Division's funds appropriated for offender health care should be used to pay indirect costs.

TTUHSC management did not agree with the recommendations in this report, and its detailed response is presented in Section 3 of the attachment to this letter. The information in TTUHSC's management's response did not cause the State Auditor's Office to modify the issues or recommendations in this report. If you have any questions, please contact Nicole Guerrero, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas Tech University System Board of Regents
Mr. Larry K. Anders, Chair
Mr. Jerry E. Turner, Vice Chair
Mr. L. Frederick Francis
Mr. Jeff Harris
Mr. John Huffaker
Mr. Mickey L. Long
Ms. Debbie Montford
Ms. Nancy Neal
Mr. John F. Scovell
Mr. Daniel T. Serna
Mr. Kent Hance, Chancellor, Texas Tech University System
Dr. Tedd Mitchell, President, Texas Tech University Health Sciences Center
Members of the Correctional Managed Health Care Committee
Dr. James D. Griffin, Chair
Mr. Elmo Cavin
Mr. Bryan Collier
Mr. William Elger
Mr. Gerald Evenwel, Jr.
Dr. Cynthia Jumper
Dr. Lannette Linthicum
Dr. Ben G. Raimer
Dr. Desmar Walkes
Mr. Allen Hightower, Executive Director, Correctional Managed Health Care Committee



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Attachment

Section 1

TTUHSC Correctional Managed Health Care Expenditures for Fiscal Years 2009 and 2010

Table 1 shows Texas Tech University Health Sciences Center's (TTUHSC) correctional managed health care expenditures for fiscal years 2009 and 2010.

Table 1

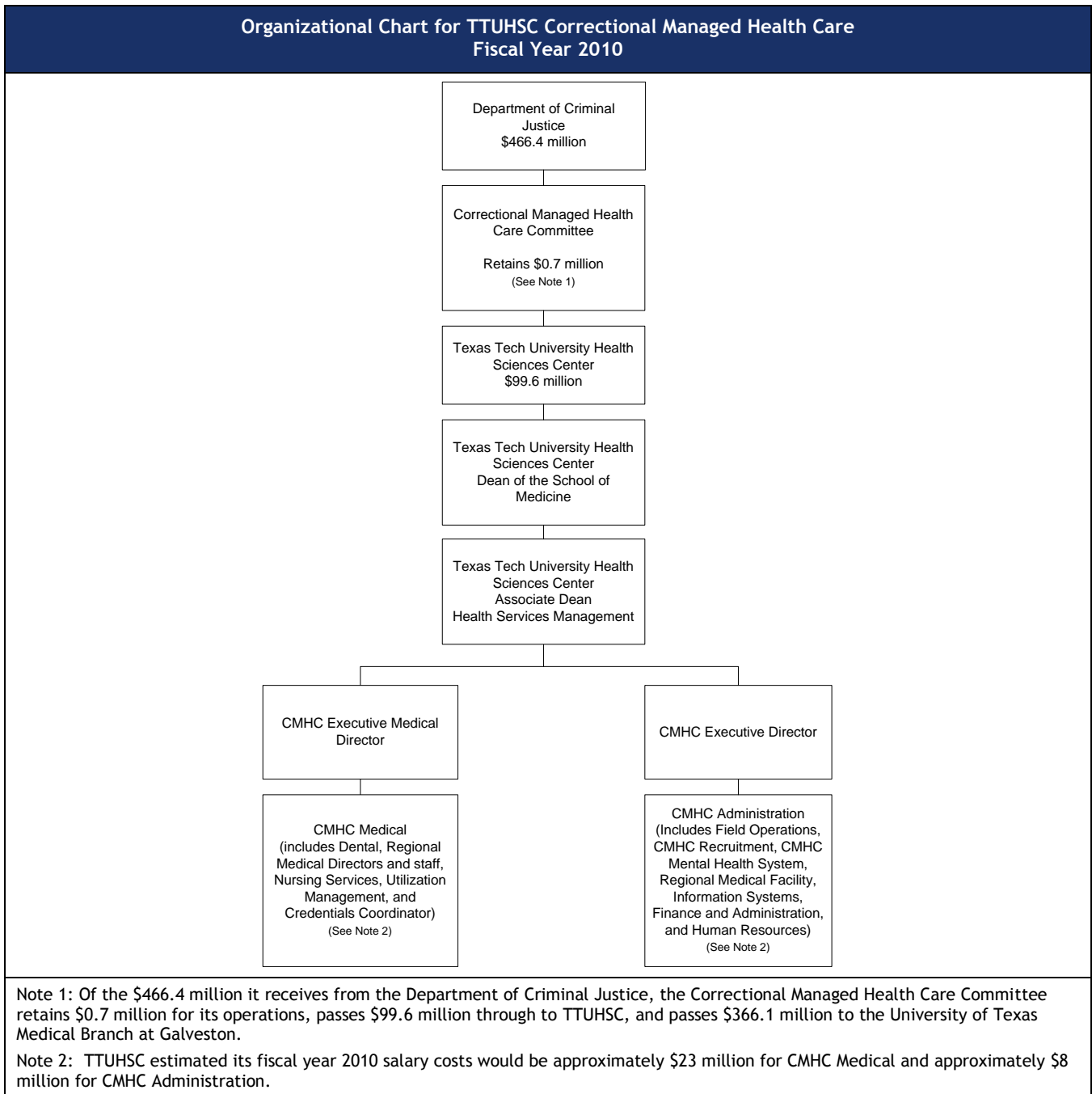
TTUHSC Correctional Managed Health Care Expenditures Fiscal Years 2009 and 2010					
Expenditure Category	Fiscal Year 2009		Fiscal Year 2010		Totals for Fiscal Years 2009 and 2010
	Expenditures	Percent of Total Expenditures	Expenditures	Percent of Total Expenditures	
Salaries	\$ 29,862,758	29.57%	\$ 32,662,091	29.76%	\$ 62,524,849
Benefits	7,210,003	7.14%	7,708,921	7.02%	14,918,924
Operating Expenditures (Maintenance and Operations)	3,438,278	3.40%	2,766,681	2.52%	6,204,959
Professional Services	6,707,716	6.64%	7,058,522	6.43%	13,766,238
Contracted Units/Services	23,660,936	23.43%	24,551,003	22.37%	48,211,939
Travel	179,349	0.18%	188,504	0.17%	367,853
Electronic Medicine (Telemedicine/EMR)	315,274	0.31%	371,697	0.34%	686,971
Capital Equipment Exceeding \$5,000	411,675	0.41%	370,010	0.34%	781,685
Depreciation	0	0.00%	0	0.00%	\$0
Indirect Expenses	5,701,280	5.65%	6,133,412	5.59%	11,834,692
Pharmaceutical Purchases (Drug Costs)	6,859,760	6.79%	7,605,150	6.93%	14,464,910
University Professional Services	962,023	0.95%	1,122,476	1.02%	2,084,499
Freeworld Provider Services	15,421,674	15.27%	18,904,415	17.22%	34,326,089
Estimated Incurred But Not Reported (IBNR) Expenditures	250,000	0.25%	325,000	0.30%	575,000
Totals	\$100,980,726	100.00% ^a	\$109,767,882	100.00%	\$210,748,608

Source: Information provided by TTUHSC.

Organizational Chart for TTUHSC Correctional Managed Health Care

Figure 1 shows the flow of funds from the Department of Criminal Justice to the Texas Tech University Health Sciences Center (TTUHSC) and identifies the TTUHSC departments that are involved in providing offender health care services. As of August 2010, the correctional managed health care program at TTUHSC had approximately 685 filled, full-time positions.

Figure 1



Source: Developed by auditors based on information provided by TTUHSC.

Management's Responses



TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER

Office of the President

February 7, 2011

State Auditor's Office
ATTN: Courtney Ambres-Wade
P.O. Box 12067
Austin, TX 78711-2067

Dear Ms. Ambres-Wade:

Thank you for the opportunity to review and respond to the draft report for the State Auditor's Office (SAO) audit of Correctional Managed Health Care at Texas Tech University Health Sciences Center (TTUHSC). The responses of our leadership team are included below.

Indirect Costs

In the October 2006 audit related to correctional managed health care, the State Auditor's Office issued this statement encompassing TTUHSC's methodology for charging indirect costs: "The institutions' methodologies for calculating the indirect costs associated with providing health care to state prison inmates are reasonable." We believe that the 6% indirect cost rate is fair and reasonable. (The TTUHSC federal government indirect cost rate is 48.5%⁶⁶) Included in the 6% rate are all the direct administrative costs of this contract. Effective with the renewal of this contract on September 1, 2011, TTUHSC will charge these direct administrative costs to the contract, thereby lowering the indirect cost rate to 3.5%. TTUHSC is currently preparing the indirect cost study for fiscal year 2010 in order to support our rate renewal with the federal government. The results of this study will be available to document the fact that an indirect cost rate of 3.5% for this contract is well-justified.

We respectfully disagree with the State Auditor's recommendation that TTUHSC gain approval from the Legislative Budget Board (LBB) for the indirect cost rate, as no such requirement currently exists.

Salaries

We respectfully disagree with the State Auditor's recommendation to seek prior approval from the Correctional Managed Health Care Committee (CMHCC) and/or the LBB before awarding salary increases to our employees. Correctional Managed Health Care (CMHC) at TTUHSC is a division of the School of Medicine, and all its employees are employees of TTUHSC. The School of Medicine and CMHC are governed by all institutional policies and guidelines of TTUHSC, and we follow institutional policies for salary increases for our CMHC employees.

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Page Two

Allowable Costs

We respectfully disagree with the State Auditor's implications that \$159,082 in fiscal year 2010 expenditures may have been unreasonable or unnecessary. We believe all of the expenses are appropriate, allowable, and necessary to conduct day-to-day business related to prison health care operations. The questioned expenditures include costs of recruiting health care candidates and costs of cellular phones used daily by our employees in fulfilling the agreement with the CMHCC. These costs are reasonable and required to conduct business and compete in the recruitment of health care providers outside the correctional system. Additionally, contract language in Article III Section L. provides guidelines on "Restrictions of Expenditures" for our correctional agreement, and expenditures are audited monthly by the CMHCC to ensure compliance with these requirements. As such, we disagree that contract clarification is needed.

The \$52,465 in employee benefits the State Auditor asserts are not authorized by the contract represents retirement fringe benefit expenses that are not completely reimbursed by fringe revenue credits, therefore resulting in a net expense under this agreement. The General Appropriations Act states that no TTUHSC higher education funds shall be spent on the correctional agreement, as referenced in Senate Bill 1, 81st Legislature, General Appropriations Act, Article III, page 192 #4 Appropriation of Costs for Health Care to Inmates, which states, "It is the intent of the Legislature that all costs for providing health care to inmates of the TDCJ including costs of operating TDCJ hospital facilities in Galveston County and Lubbock County shall be paid from appropriations made to the TDCJ." During contract negotiations for the next biennium, TTUHSC will seek clarification in the CMHCC / TTUHSC agreement and recommend appropriate changes to the section addressing fringes to clarify this issue and to be consistent with legislative intent.

Reimbursement Amounts

We respectfully disagree with the State Auditor's recommendations for TTUHSC to seek approval from Health and Human Services Commission and the LBB of the rates we pay to sub-contract health care providers. No such requirement currently exists, and implementing this recommendation would add to the administrative cost of this contract. The CMHCC approves these costs when they approve the biennial contract with TTUHSC to deliver health care to the inmate population.

The current rate structure for offsite care (offsite specialty physician, hospitalization, and ambulance services) has significantly discounted contracts and payment mechanisms in place. The CMHCC currently monitors these types of expenditures monthly. Additionally, the "local hospital onsite contracts" refers to our contracts with local community hospitals to operate some of our onsite prison medical clinics. These costs consist mainly of salary and fringes, and increases are given under the same circumstances as raises for TTUHSC employees.

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Organizational Structure

We respectfully disagree with the State Auditor's recommendation to maintain documentation of the test results of procedures performed prior to implementation and upgrade of information systems. Spreadsheets that were used during the "mock" exercises prior to implementation and prior to the upgrade were provided to the SAO during the audit. The spreadsheets outlined the test procedures that were performed prior to implementation and prior to the upgrade. Successful completion of all scenarios was verified before implementation. In our opinion, retaining test results after implementation is unnecessary.

If you have questions about our responses, please feel free to contact Mr. Elmo Cavin, TTUHSC Executive Vice President for Finance and Administration, or Mr. Larry Elkins, TTUHSC Executive Director for Correctional Managed Health Care.

Sincerely,

A handwritten signature in black ink, appearing to read "Tedd L. Mitchell".

Tedd L. Mitchell, M.D.
President
Texas Tech University Health Sciences Center

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Examine the shortfall reported by the Correctional Managed Health Care Committee for fiscal year 2009, the projected shortfall reported by the Correctional Managed Health Care Committee for the 2010-2011 biennium, and any projected shortfall reported in the Correctional Managed Health Care Committee's legislative appropriation request for fiscal years 2012 and 2013.
- Follow up on selected recommendations in State Auditor's Office Report No. 07-017 (March 2007), *An Audit Report on Correctional Managed Health Care Funding Requirements*.

Scope

The scope of this audit covered Texas Tech University Health Sciences Center's (TTUHSC) projected and actual deficit calculations for fiscal years 2009 through 2011. Auditors also reviewed the Correctional Managed Health Care Committee's oversight and its projected deficits for fiscal years 2012 and 2013. (According to the Correctional Managed Health Care Committee, the higher education institution health care providers cannot project expected deficits for fiscal years 2012 and 2013 until they know how much the Legislature will appropriate for their services.) In addition, auditors followed up on a previous state auditor recommendation at TTUHSC.

Methodology

The audit methodology consisted of collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with management and staff at TTUHSC, the Correctional Managed Health Care Committee, and the Department of Criminal Justice.

According to the Society for Human Resource Management, fringe benefits are benefits granted to employees in addition to their current base salary or wages (for example, cash, merchandise, services, health insurance, pension plans, holidays, and paid vacations).

For this audit, the State Auditor's Office considered the following to be fringe benefits:

- Optional retirement program expenditures.

- Old-age, survivors, and disability insurance expenditures.
- Old age, survivors, disability, and health insurance expenditures.
- Premium sharing expenditures for accidental death and dismemberment, health, life, and vision.

The State Auditor's Office did not include benefits such as paid leave in its interpretation of fringe benefits.

Information collected and reviewed included the following:

- Contract between the Correctional Managed Health Care Committee and the Department of Criminal Justice, and contract between the Correctional Managed Health Care Committee and TTUHSC.
- Correctional Managed Health Care Committee and TTUHSC policies and procedures.
- Revenue TTUHSC received from the Correctional Managed Health Care Committee.
- TTUHSC's correctional managed care expenditures related to salaries and benefits, hospital costs, professional services, regional medical facility contracts, and pharmacy costs.
- Budgeting process documentation.
- Financial reports that TTUHSC submitted to the Correctional Managed Health Care Committee.
- TTUHSC financial systems.

Procedures and tests conducted included:

- Tests of expenditure data, including verification of invoices, purchase orders, reasonableness of expenditures in the deficit calculation, and appropriateness of amounts billed for offender health care for fiscal years 2009 and 2010.
- Verification of amounts paid by the Correctional Managed Health Care Committee and received by TTUHSC.
- Review of deficit calculations for fiscal years 2009 and 2010.
- Review of TTUHSC financial systems used to provide information to the Correctional Managed Health Care Committee and to generate related financial reports.

- Interviews with management and staff at TTUHSC, the Correctional Managed Health Care Committee, and the Department of Criminal Justice.
- Analysis of employee salary actions data.

Criteria used included the following:

- Texas Government Code, Chapter 501.
- Title 1, Texas Administrative Code, Chapter 202.
- Riders 41 and 42, page V-22, the General Appropriations Act (81st Legislature).
- Rider 61, page V-24, the General Appropriations Act (81st Legislature).
- Riders 82 and 83, page V-28, the General Appropriations Act (81st Legislature).
- TTUHSC and Correctional Managed Health Care Committee policies and procedures.
- Contract between the Correctional Managed Health Care Committee and TTUHSC.

Project Information

Audit fieldwork was conducted from May 2010 through January 2011. We conducted this performance audit 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.

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

- Courtney Ambres-Wade, CGAP (Project Manager)
- Ileana Barboza, MBA, CGAP, CICA (Assistant Project Manager)
- Michelle Ann Feller, CIA (Assistant Project Manager)
- Shahpar M. Ali, CPA, M/SBT
- Jennifer D. Brantley, CPA
- Ann E. Karnes, CPA
- Seorin Kim, CPA

- Jennifer Wiederhold, CGAP
- Michael Yokie, CISA
- Brian York
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP, CICA (Audit Manager)