



John Keel, CPA
State Auditor

An Audit Report on

**Correctional Managed Health
Care at the University of Texas
Medical Branch at Galveston**

February 2011
Report No. 11-017

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Overall Conclusion

In February 2010, the University of Texas Medical Branch at Galveston (UTMB) reported through its correctional managed health care division (UTMB-CMC Division) a \$95.1 million projected deficit for fiscal years 2009 through 2011. That deficit included:

- A \$12.8 million deficit in providing health care to offenders in fiscal year 2009.
- An \$82.3 million projected deficit in providing health care to offenders in fiscal years 2010 and 2011 (see Appendix 2 for an excerpt from a February 2010 presentation regarding the UTMB-CMC Division budget.)

During this audit, UTMB revised its overall projected deficit for fiscal years 2009 through 2011 to \$83.5 million.

For the purposes of this audit, the State Auditor's Office focused on the reported deficit for UTMB-CMC Division in fiscal years 2009 and 2010. The following items led to that deficit:

- **Reimbursement amounts.** UTMB develops reimbursement amounts for UTMB-CMC Division services internally without independent review and approval from the Correctional Managed Health Care Committee. Based on information UTMB provided, in fiscal year 2010, UTMB-CMC Division physician reimbursement amounts exceeded standard Medicare, Medicaid, and a major private insurance carrier's reimbursement amounts. According to UTMB's School of Medicine and the data it provided, the UTMB-CMC Division's reimbursement amount for physician billing services is, on average, 135 percent of the Medicare reimbursement amount. Additionally, UTMB-CMC Division reimbursement amounts exceeded standard Medicare reimbursement amounts for each type of hospital service, including inpatient and outpatient services (see Chapter 1-A and Appendix 3 for additional information).
- **Salary adjustments.** Although UTMB was reporting a deficit for UTMB-CMC Division, it authorized \$14.1 million in salary increases for UTMB-CMC Division during fiscal years 2008 through 2010. Additionally, in November 2010, UTMB awarded \$7,747,621 in Together Employees Achieve More (TEAM) award

Background Information

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

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 to offenders.

Source: Correctional Managed Health Care Committee Web site.

payouts to employees after it reported what one newspaper article referred to as “a positive adjusted margin of \$37.5 million” for fiscal year 2010¹ (see Chapter 1-B and Appendix 4 for additional information).

- **Indirect costs.** UTMB may be charging UTMB-CMC Division for a disproportionate amount of UTMB’s indirect costs. UTMB is charging UTMB-CMC Division for indirect cost in three ways: (1) UTMB recovers a portion of its institution-wide indirect costs through UTMB-CMC Division reimbursement amounts for offender health care services; (2) UTMB charges UTMB-CMC Division for a portion of selected UTMB employees’ salaries; and (3) UTMB allocates a portion of its indirect costs (shared services cost) to UTMB-CMC Division for departments providing indirect services. The shared services costs (indirect costs) charged to UTMB-CMC Division in fiscal years 2009 and 2010 totaled \$16.2 million and included costs that were not directly related to providing health care to offenders. An example of UTMB costs allocated to UTMB-CMC Division through indirect costs involves the Health Policy and Legislative Affairs Department. UTMB-CMC Division pays 33 percent of the Senior Vice President’s² salary for services provided. In addition to paying a direct portion of this salary, UTMB-CMC Division pays for costs from the Health Policy and Legislative Affairs Department through both an allocation of institution-wide indirect costs and as part of the reimbursement amounts charged to UTMB-CMC Division to recover UTMB’s cost to operate the correctional managed health care program (see Chapter 1-C and Appendix 6 for additional information).
- **Allowability of expenditures.** Auditors tested a sample of UTMB-CMC Division expenditures from the \$715.9 million in total expenditures that UTMB-CMC Division made to provide offender health care from fiscal year 2009 through April 30, 2010. Overall, the expenditures tested were adequately supported. However, UTMB-CMC Division charged more than \$6.6 million for costs specifically prohibited by the contract with the Correctional Managed Health Care Committee or state requirements. Additionally, UTMB-CMC Division should strengthen controls to ensure that all expenditures are allowable. Auditors identified a net \$220,113 in overcharges to the contract with the Correctional Managed Health Care Committee (see Chapter 1-D for additional information).

Lack of clear guidance in the contract between UTMB and the Correctional Managed Health Care Committee also prevented auditors from determining whether an additional \$17.9 million in expenditures were reasonable and necessary to providing offender health care. In addition, auditors identified expenditures that were not properly classified, which could prevent the

¹ Elder, Laura (23 November 2010). “UTMB back in the black.” *The Galveston County Daily News*. Retrieved from <http://galvestondailynews.com/story/192694> on December 10, 2010.

² This person also received a \$125,460 TEAM award in fiscal year 2011 (see Appendix 4).

Correctional Managed Health Care Committee from adequately overseeing costs (see Chapter 1-D and Appendix 7 for additional information).

- **Organizational structure.** UTMB established UTMB-CMC Division as a department within UTMB. This means that UTMB makes both administrative and management decisions and provides services to UTMB-CMC Division. This structure allows for limited independent review and approval of UTMB-CMC Division finances and has resulted in a lack of coordination among UTMB, UTMB-CMC Division, and the Correctional Managed Health Care Committee. This relationship also minimizes the oversight role of the Correctional Managed Health Care Committee as established by Texas Government Code, Chapter 501 (see Chapter 3 for additional information).

Table 1 summarizes the effect of questioned costs and other costs auditors identified that have a significant effect on UTMB's reported deficit for fiscal years 2009 and 2010.

Table 1

Areas Affecting UTMB's (Deficit)/Surplus				
	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
UTMB's revised deficit	\$(12,806,148) (actual)	\$(18,708,200) ^a (actual)	\$(51,942,337) (projected)	\$(83,456,685)
Questioned Costs Auditors Identified				
Costs prohibited by contract ^b	\$ 3,372,522	\$ 3,234,644	(to be determined)	\$ 6,607,166
Expenditure testing results ^b	<u>207,691</u>	<u>12,422</u>	(to be determined)	<u>220,113</u>
Totals	\$ 3,580,213	\$ 3,247,066	(to be determined)	\$ 6,827,279
Other Costs Auditors Identified That Affect the Deficit				
Indirect costs/shared services ^c	\$ 8,058,834	\$ 8,174,779	(to be determined)	\$16,233,613
Salary increases ^d	6,909,549	504,800	(to be determined)	7,414,349
Expenditures that may not be directly related to providing offender health care	<u>1,032,618</u>	<u>679,336</u>	(to be determined)	<u>1,711,954</u>
Totals	\$ 16,001,001	\$ 9,358,915	(to be determined)	\$25,359,916
Reduction in Hospital Charges if Restated at 100 Percent of Standard Medicare Reimbursement Amount				
Physician services ^e	\$ 3,111,304	\$ 4,651,467	(to be determined)	\$ 7,762,771
Inpatient hospital services ^e	8,273,571	15,184,962	(to be determined)	23,458,533
Outpatient lab services ^e	826,467	1,060,831	(to be determined)	1,887,298
Other outpatient services ^e	<u>4,023,521</u>	<u>5,390,863</u>	(to be determined)	<u>9,414,384</u>
Totals	\$ 16,234,863	\$26,288,123	(to be determined)	\$42,522,986

Areas Affecting UTMB's (Deficit)/Surplus

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
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<p>^a As of September 2010, after auditors' fieldwork, UTMB revised the fiscal year 2010 deficit to \$12.0 million (according to UTMB's cash flow forecast). UTMB also revised the projected fiscal year 2011 deficit to \$44.9 million (according to UTMB's cash flow forecast).</p> <p>^b See Chapter 1-D of this report for additional information.</p> <p>^c See Chapter 1-C and Table 7 in Chapter 1-D of this report for additional information.</p> <p>^d See Chapter 1-B of this report for additional information.</p> <p>^e See Appendix 1 for details on auditors' analysis of these services.</p>				
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Summary of Management's Response

UTMB management did not agree with the issues and recommendations in this report, and its detailed response is presented in Appendix 8 beginning on page 54. The information in UTMB's management response did not cause the State Auditor's Office to modify the issues or recommendations in this report.

Management of the Correctional Managed Health Care Committee concurred with this report's recommendation that the executive director of the Correctional Managed Health Care Committee coordinate with the Legislative Budget Board and UTMB to create transparency and independence in the decision making process regarding reimbursement amount structure, salary adjustments, and allowable costs related to providing health care to offenders. The detailed response from the Correctional Managed Health Care Committee is presented in Appendix 9 beginning on page 62.

Summary of Information Technology Review

UTMB uses multiple information systems to maintain UTMB-CMC Division financial information. These systems include a detailed financial system (PeopleSoft), a summary level financial reporting system (Hyperion), and a cost accounting system (Eclipsys). Auditors reviewed selected UTMB information systems that support UTMB-CMC Division and determined that UTMB had addressed issues noted in a previous audit (see *An Audit Report on Correctional Managed Health Care Funding Requirements*, State Auditor's Office Report No. 07-017, March 2007). In addition, UTMB has implemented controls to help ensure the completeness and accuracy of the data in those systems. For example, UTMB added edits to help prevent the processing of incorrectly coded transactions, implemented reconciliations between the financial and cost accounting systems, and limited access to systems to authorized staff. However, UTMB should continue to improve security over the financial system and ensure that it properly restricts access.

Summary of Objectives, Scope, and Methodology

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*.

The scope of this audit covered UTMB's actual and projected deficit calculations for fiscal years 2009 through 2011. Auditors also reviewed the Correctional Managed Health Care Committee's oversight and projected deficits for fiscal years 2012 and 2013. In addition, auditors followed up on previous State Auditor's Office recommendations at UTMB (see Chapter 4).

The audit methodology included 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 UTMB, the Correctional Managed Health Care Committee, and the Department of Criminal Justice.

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Detailed Results

Chapter 1

The UTMB-CMC Division Deficit Was Largely Driven by Reimbursement Amounts, Salaries, Indirect and Administrative Costs, and Allowability of Expenditures

The University of Texas Medical Branch at Galveston (UTMB) develops correctional managed health care (UTMB-CMC Division) reimbursement amounts internally without independent review and approval from the Correctional Managed Health Care Committee. UTMB-CMC Division is both a department within and a client of UTMB. This creates a lack of transparency and independence in the management of the correctional managed health care program (see Chapter 3 for additional details).

UTMB was unable to provide auditors with information on the cost of hospital services to treat a single offender. However, UTMB provided auditors with information on hospital charges and reimbursement amounts for UTMB-CMC Division, Medicare, Medicaid, and a major private insurance carrier for selected medical procedures. Auditors compared those reimbursement amounts and determined that UTMB-CMC Division reimbursement amounts exceeded standard Medicare reimbursement amounts in each of the following categories: physician services, inpatient hospital services, outpatient lab services, and other outpatient services (see Chapter 1-A for additional details).

UTMB approved \$14.1 million in salary increases for fiscal years 2008 through 2010 for UTMB-CMC Division while it was reporting a deficit. These salary increases were done through salary actions such as merit increases, market adjustments, and equity increases (see Chapter 1-B for additional details).

UTMB-CMC Division continued to report deficits while, in September 2010, UTMB announced that it would implement a 2 percent merit pay program to increase salaries for eligible classified employees. In November 2010, UTMB also awarded \$7.7 million in award payouts to employees. According to UTMB, UTMB-CMC Division employees were not eligible for these award payouts due to the financial challenges within UTMB-CMC Division; however, auditors identified 40 employees who were fully or partially paid by UTMB-CMC Division and who received these awards. Of those 40 employees, 39 received payouts of \$500 and 1 received a payout of \$125,460 (see Appendix 4 for additional information on the payout awards).

UTMB also may be charging UTMB-CMC Division for a disproportionate amount of UTMB's indirect costs. Because UTMB has structured UTMB-

CMC Division as a department within UTMB, UTMB-CMC Division shares in the indirect cost allocation for departments that do not generate patient charges. As a result, UTMB-CMC Division pays a portion of UTMB's institution-wide indirect administrative costs. While UTMB-CMC Division pays UTMB for a portion of those administrative costs, UTMB also recovers a portion of its indirect cost through the reimbursement amounts it charges UTMB-CMC Division for providing health care to offenders (see Chapter 1-C for additional details).

For fiscal years 2009 and 2010, UTMB-CMC Division charged more than \$6.6 million in expenditures that were prohibited by the contract with the Correctional Managed Health Care Committee or state requirements. Because that contract offers limited guidance on allowable expenditures, auditors could not determine whether an additional \$17.9 million in expenditures were reasonable and necessary to provide health care to offenders (see Chapter 1-D for additional details).

Chapter 1-A

UTMB Develops UTMB-CMC Division Reimbursement Amounts Internally without Independent Review and Approval from the Correctional Managed Health Care Committee; Those Reimbursement Amounts Exceed Standard Medicare Reimbursement Amounts

UTMB develops UTMB-CMC Division reimbursement amounts internally without independent review and approval from the Correctional Managed Health Care

Committee. UTMB-CMC Division is both a department within and a client of UTMB. This creates a lack of transparency and independence in the management of the correctional managed health care program. As a client of UTMB, UTMB-CMC Division negotiates with UTMB the amounts UTMB will charge for providing health care services to offenders. Essentially, UTMB is negotiating with itself.

The UTMB-CMC Division executive director of finance reports directly to UTMB's executive vice president of finance, and those individuals sign the memorandum of understanding that determines the UTMB-CMC Division reimbursement amounts for physician services, inpatient hospital services, outpatient lab services, and other outpatient services provided to offenders. The Correctional Managed Health Care Committee is not involved in this process.

Physician, inpatient, and outpatient hospital services account for approximately 16 percent of total UTMB-CMC Division expenditures. The amounts charged for these hospital-related expenditures could affect whether UTMB-CMC Division experiences a deficit. UTMB was unable to provide auditors with information on the cost of hospital services to treat a single offender. Rather than gathering individual costs, UTMB's cost accounting system allocates all UTMB expenditures across various

How UTMB-CMC Division Reimbursement Rates Are Determined for Inpatient and Outpatient Services

According to UTMB-CMC Division management, hospital reimbursement amounts for inpatient and outpatient services are established to cover the cost of providing health care services to offenders.

UTMB-CMC Division uses what it considers its costs from the previous year as a baseline, plus an amount for inflation as determined by UTMB to cover rising costs. In addition to inflation, UTMB-CMC Division also considers other underlying budget assumptions (for example, if a 4 percent salary increase is planned, then salary inflation would be 4 percent).

For fiscal year 2009, the inflation rate UTMB-CMC Division used was 5.0 percent above fiscal year 2008 costs. For fiscal year 2010, the inflation rate that UTMB-CMC Division used was 4.5 percent above fiscal year 2009 costs.

services. For example, the cost of an x-ray is not determined by how much it costs to perform one x-ray; instead, it is determined by taking total radiology department costs plus an allocated portion of all shared services (for example laundry and housekeeping) and dividing that amount by the total number of radiological services performed during the year. UTMB does this for every UTMB department that provides services to patients.

UTMB provided auditors with information on its hospital charges and reimbursement amounts for UTMB-CMC Division, Medicaid, Medicare, and a private insurance carrier for selected procedures. Auditors selected 25 types of medical procedures to validate the reimbursement rates provided by UTMB. Auditors then compared the reimbursement amounts UTMB-CMC Division provided and determined that UTMB-CMC Division reimbursement amounts exceeded standard Medicare reimbursement amounts in each of the following categories: physician services, inpatient hospital services, outpatient lab services, and other outpatient services. The results of the detailed analysis are presented below.

Physician Services

For fiscal years 2009 and 2010, UTMB-CMC Division reimbursed UTMB approximately \$30 million for providing physician services to offenders. Auditors tested 29 physician inpatient and outpatient records for fiscal year 2010 and validated the 49 percent reimbursement rate for physician services as agreed upon in the memorandum of understanding. Additionally, auditors analyzed UTMB-CMC Division physician services reimbursement amounts from the most costly and most frequently performed procedures and determined that UTMB-CMC Division reimbursement amounts exceeded the standard Medicare reimbursement amounts, Medicaid reimbursement amounts, and a major private insurance carrier's reimbursement amounts. According to UTMB's School of Medicine and data that UTMB provided, the UTMB-CMC Division reimbursement amount for physician services is, on average, 135 percent of the standard Medicare reimbursement amount for physician services. (See Appendix 1 for additional details on the analytical procedures that auditors performed.)

As Table 2 shows, based on the average hospital charge for the five types of physician services analyzed and the information UTMB-CMC Division provided, auditors validated that UTMB-CMC Division reimburses UTMB for 49 percent of hospital charges for physician services; Medicare, on average, reimburses for 34 percent of hospital charges for physician services.

Table 2

Comparison of Average Reimbursement Amounts for Physician Services									
Service Type	UTMB Hospital Charges	UTMB-CMC Division Reimbursement		Medicare Reimbursement		Medicaid Reimbursement		Major Private Insurance Reimbursement	
		Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges
Physician Services	\$7,541	\$3,695	49%	\$2,564	34%	\$2,029	27%	\$3,406	45%

Source: Auditor analysis of five types of physician services and the hospital charges and reimbursement amounts provided by UTMB. Auditors conducted analysis to substantiate rates UTMB provided.

See the methodology for validating the UTMB-CMC Division reimbursement rates in the objectives, scope, and methodology in Appendix 1.

Inpatient Hospital Services

For fiscal years 2009 and 2010, UTMB-CMC Division reimbursed UTMB approximately \$77 million for providing inpatient hospital services to offenders based on reimbursement amounts detailed in its memorandum of understanding. Auditors calculated the percentage change between the fiscal year 2010 standard dollar amount for Medicare (\$5,619.94) and UTMB-CMC Division’s agreed upon standard dollar amount for inpatient hospital services (\$8,062.18). This resulted in a 143.5 percent increase over the Medicare standard dollar amount, which validates the rate UTMB included in the memorandum of understanding.

Additionally, auditors tested 48 inpatient hospital services records for fiscal year 2010 and validated that UTMB-CMC Division was billed at the agreed upon standard dollar amount for inpatient hospital services times Medicare’s assigned diagnostic rate group weight factor.

Further, auditors validated the inpatient hospital rate reported by UTMB as 143.5 percent of the Medicare reimbursement amount by selecting a sample of the most costly and most frequently performed procedures. Auditors then compared the reimbursement amounts provided by UTMB by analyzing

inpatient medical procedures for UTMB-CMC Division, Medicare, Medicaid, and a major private insurance carrier.

As Table 3 shows, based on the average hospital charge for five procedure types analyzed for inpatient hospital services, UTMB-CMC Division reimbursement amounts exceeded the standard Medicare and major private insurance carrier reimbursement amounts.

Table 3

Comparison of Average Reimbursement Amounts for Inpatient Hospital Services									
Service Type	UTMB Hospital Charges	UTMB-CMC Division Reimbursement		Medicare Standard Reimbursement		Medicaid Reimbursement		Major Private Insurance Reimbursement	
		Amount	As a Percent of Hospital Charges	Standard Amount Only	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges
Inpatient Hospital Services	\$902,494	\$240,528	27%	\$167,666	19%	\$487,347	54%	\$224,222	25%

Source: Auditor analysis of five types of inpatient hospital procedures and the hospital charges and reimbursement amounts provided by UTMB. Auditor analysis was conducted to substantiate rates UTMB provided.

According to the Texas Medicaid and Healthcare Partnership, as of July 2009, UTMB's reimbursement was set at a Medicaid Tax Equity and Fiscal Responsibility Act (TEFRA) rate of 54 percent of hospital charges for providing inpatient services to its Medicaid patients. As a result, the Medicaid reimbursement amount for inpatient hospital services was higher than the UTMB-CMC Division reimbursement amount for inpatient hospital services.

Definitions
<u>Indirect Medical Education</u> - Additional payment to reflect the higher patient care costs of teaching hospitals relative to non-teaching hospitals.
<u>Direct Graduate Medical Education</u> - Payments to hospitals for the costs of approved graduate medical education programs.

It should also be noted that, for inpatient hospital services, the above comparison was made only against the Medicare standard reimbursement amount. Because UTMB is a teaching hospital, for inpatient hospital services UTMB receives additional Medicare reimbursement amounts for indirect medical education and direct graduate medical education (see text box). UTMB also qualifies for a disproportionate share hospital payment for serving low income patients. Including these additional reimbursement amounts would make the total Medicare reimbursement amount for inpatient services higher than the UTMB-CMC Division reimbursement amount. However, being a teaching institution and a hospital that serves low income patients may not entitle UTMB to receive these additional considerations because it is a state entity operating a fee-for-service contract with another state entity. See Table 11 in Appendix 3 for additional information on UTMB reimbursement amounts, including reimbursement

amounts for indirect medical education and direct graduate medical education and for reimbursement as a disproportionate share hospital.

See the methodology for validating the UTMB-CMC Division reimbursement rates in the objectives, scope, and methodology in Appendix 1.

Outpatient Lab Services

For fiscal years 2009 and 2010, UTMB-CMC Division reimbursed UTMB approximately \$19 million for providing outpatient lab services to offenders. Auditors analyzed outpatient lab procedure types for five of the most costly and most frequently performed procedures and compared the reimbursement amounts for UTMB-CMC Division to Medicare, Medicaid, and a major private insurance carrier.

As Table 4 shows, based on the average reimbursement amounts for the five outpatient lab procedure types selected, auditors were able to validate UTMB’s reported reimbursement amount of 20.2 percent of billed charges or 111.3 percent of the Medicare reimbursement amount and determined that UTMB-CMC Division reimbursement amounts exceeded Medicare and Medicaid reimbursement amounts.

Table 4

Comparison of Average Reimbursement Amounts for Outpatient Lab Services									
Service Type	UTMB Hospital Charges	UTMB-CMC Division Reimbursement		Medicare Reimbursement		Medicaid Reimbursement		Major Private Insurance Reimbursement	
		Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges
Outpatient Lab Services	\$460	\$93	20%	\$84	18%	\$84	18%	\$368	80%

Source: Auditor analysis of five types of outpatient lab procedures and the hospital charges and reimbursement amounts provided by UTMB. Auditor conducted analysis to substantiate rates UTMB provided.

See the methodology for validating the UTMB-CMC Division reimbursement rates in the objectives, scope, and methodology in Appendix 1.

Other Outpatient Services

For fiscal years 2009 and 2010, UTMB-CMC Division reimbursed UTMB approximately \$33 million for providing other outpatient services to offenders. Auditors analyzed 10 of the most costly and most frequently performed procedure types and validated UTMB’s reported other outpatient

services billing rate of 38.6 percent, or 140 percent of the Medicare reimbursement amount. Auditors also compared the reimbursement amounts for UTMB-CMC Division to Medicare, Medicaid, and a major private insurance carrier.

As Table 5 shows, based on the average of the 10 other outpatient procedure types analyzed, the UTMB-CMC Division reimbursement amount exceeded the Medicare reimbursement amount.

Table 5

Comparison of Average Reimbursement Amounts for Other Outpatient Services									
Service Type	UTMB Hospital Charges	UTMB-CMC Division Reimbursement		Medicare Reimbursement		Medicaid Reimbursement		Major Private Insurance Reimbursement	
		Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges	Amount	As a Percent of Hospital Charges
Other Outpatient Services	\$121,391	\$46,857	39%	\$33,474	28%	\$52,198	43%	\$97,113	80%

Source: Auditor analysis of 10 types of other outpatient procedures and the hospital charges and reimbursement amounts provided by UTMB. Auditor's conducted analysis to substantiate rates UTMB provided.

According to the Texas Medicaid and Healthcare Partnership, as of July 2009, UTMB's reimbursement was set at a Medicaid TEFRA rate of 43 percent of hospital charges for providing outpatient services to its Medicaid patients. As a result, the Medicaid reimbursement for other outpatient services was higher than the UTMB-CMC Division reimbursement.

See the methodology for validating the UTMB-CMC Division reimbursement rates in the objectives, scope, and methodology in Appendix 1.

Recommendations

UTMB should ensure transparency in its process for determining reimbursement amounts for physician, inpatient, and outpatient 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.

The Legislature may consider requiring UTMB 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 UTMB-CMC Division reimbursement amounts.
- Publish proposed UTMB-CMC Division reimbursement amounts, rates, and the associated methodology in the *Texas Register*.

UTMB Approved \$14.1 Million in Salary Increases for Fiscal Years 2008 Through 2010 for UTMB-CMC Division While UTMB Was Reporting a Deficit

Employee Categories

Administrative and Professional - Includes executive and managerial administrative employees engaged in strategic, tactical, or operational management who have primary responsibility for the management of a department or operating unit.

Classified - Includes employees in office support, pharmacy, health care and clinical support, nursing, police, research, and general business operations positions.

Non-teaching - Includes professional, non-faculty employees, such as physicians.

Pay-by-letter - Includes employees who (1) are not eligible for benefits and (2) have work weeks that are fewer than 20 hours and may vary. These employees are not included in auditors' analysis.

Source: UTMB's *Institutional Salary Administration Procedures for Classified and Administrative and Professional Employees* and UTMB's Web site.

Employee salaries are a significant part of UTMB-CMC Division's expenditures, but while UTMB was reporting a deficit, UTMB-CMC Division increased salary expenditures. UTMB-CMC Division awarded salary increases totaling \$6.7 million, \$6.9 million, and \$504,800 in fiscal years 2008, 2009, and 2010, respectively. These increases were awarded to administrative and professional, classified, and non-teaching employees (see text box for additional details on these employee categories).

After awarding the fiscal year 2008 salary increases of \$6.7 million, UTMB-CMC Division incurred a \$14.7 million deficit. UTMB-CMC Division received supplemental appropriations of \$14.7 million for fiscal year 2008, which covered its deficit. In fiscal year 2009, UTMB-CMC Division approved an additional \$6.9 million in salary increases and reported a \$12.8 million deficit. The fiscal year 2009 salary increases accounted for more than half of the deficit that year.

Salary Actions

Merit increase - A salary increase to award an individual's meritorious performance.

Market adjustment (external equity) - A salary increase to reduce or eliminate pay disparity with the external labor market.

Equity increase (internal equity) - A salary increase to adjust the salary of an individual whose pay is lower than other internal salaries for comparable level work and performance.

Source: UTMB's *Institutional Salary Administration Procedures for Classified and Administrative and Professional Employees*.

Additionally, while UTMB-CMC Division continued to report deficits, UTMB also continued to issue pay actions. For example, in September 2010, UTMB announced that it would implement a 2 percent merit pay program to increase salaries for eligible classified employees. However, UTMB-CMC Division employees were not considered eligible for these salary increases due to that department's financial challenges. In November 2010, UTMB awarded \$7.7 million in Together Employees Achieve More (TEAM) awards to compensate its employees for accomplishing specific financial and programmatic goals that had been determined critical to

UTMB's success. Although UTMB-CMC Division employees were reportedly ineligible for these award payouts, 40 UTMB-CMC Division employees received approximately \$145,000 in award payouts, reportedly from local funds (see Appendix 4 for additional information on TEAM award payouts). It is important to note that, in its 2012-2013 legislative appropriations request, UTMB included a request for \$33.4 million in funding for new positions, salary increases, and merit raises.

UTMB-CMC Division Compensation Decisions and Actions—Highlights for Fiscal Years 2008 Through 2010

Salary increases for UTMB-CMC Division employees were done through salary actions such as merit increases, market adjustments, and equity increases (see Appendix 5 for a complete list of UTMB-CMC Division salary actions). Salary increases ranged from less than 1.0 percent to 40.0 percent in fiscal year 2009; the increases ranged from 0.6 percent to 44.0 percent in fiscal year 2010. Approximately 3.0 percent of approved funds for merit increases in fiscal year 2009 and 73.0 percent of approved funds for merit increases in fiscal year 2010 went to administrative and professional employees, which comprised less than 1.0 percent of total full-time equivalent (FTE) employees within UTMB-CMC Division.

UTMB-CMC Division awarded 65 percent of the amount that the State of Texas awarded for internal and external pay equity increases for employees in fiscal year 2009. UTMB-CMC Division spent \$2.4 million on 409 internal and external equity pay increases in fiscal year 2009 for UTMB-CMC Division employees. In comparison, all state of Texas agencies' internal and external equity pay increases totaled \$3.6 million for 1,320 salary actions (from a population of 150,230) in that same time frame (see text box for a summary).

Salary Increases to Address Internal and External Pay Equity for Fiscal Year 2009

All state of Texas agencies:

- Number of actions provided: 1,320.
- Amount awarded: \$3.6 million.
- FTEs: 150,230.

UTMB-CMC Division:

- Number of actions provided: 409.
- Amount awarded: \$2.4 million.
- FTEs: 3,185.

Sources: Comptroller of Public Accounts' Human Resources Information System, Uniform Statewide Payroll/Personnel System, and Standardized Payroll/Personnel Reporting System; and UTMB's HCM DataMart payroll extract document.

Annual salary increases ranged up to \$31,211. Annual salary increases that UTMB-CMC Division awarded in fiscal years 2008 through 2010 ranged from \$2 (to bring an employee up to the minimum of a salary range) to \$31,211 (to recognize a temporary increase in an employee's duties³). See Appendix 5 for additional details on the minimum and maximum salary increase amounts by fiscal year (see Table 13 in Appendix 5).

UTMB-CMC Division employees were awarded salary increases even though UTMB-CMC Division reported a deficit and received supplemental appropriations. Through tests of salary data, auditors identified the items discussed below.

Some UTMB-CMC Division employees received multiple salary actions in one or more fiscal years. UTMB-CMC Division provided a total of 6,052 salary actions to UTMB-CMC Division administrative and professional, classified, and non-teaching employees in fiscal years 2008 through 2010. Some of these employees received multiple salary actions during one or more fiscal years (see text box for additional details).

Number of UTMB-CMC Division Employees Who Received Multiple Salary Actions in the Same Fiscal Year

- Fiscal Year 2008: 339 employees.
- Fiscal Year 2009: 398 employees.
- Fiscal Year 2010: 1 employee.

Source: UTMB-CMC Division HCM DataMart payroll extract document.

³ According to UTMB's *Institutional Salary Administration Procedures for Classified and Administrative and Professional Employees*, temporary increases should be for six months or fewer. This employee received a temporary salary increase for performing additional duties in fiscal year 2008. As of fiscal year 2010, this employee's salary still reflected this increase.

For example:

- One employee received 5 salary increases totaling \$67,925 in fiscal years 2008 and 2009. In addition, this employee had a pay-by-letter appointment in fiscal year 2008 and received a \$10 per hour market increase for that appointment.
- Another employee received 4 salary increases within a 9-month period in fiscal year 2009 totaling \$18,045.
- Another employee received 5 salary increases in fiscal years 2008 and 2009 totaling \$38,459.

UTMB-CMC Division uses pay-by-letter arrangements to compensate some employees, which may not be the best use of its resources. In fiscal years 2008 through 2010, UTMB-CMC Division awarded 84 hourly pay increases to pay-by-letter employees. Additionally, current salaried employees may be appointed in full-time positions and also have pay-by-letter appointments. This means that, in addition to their salaries, these employees are also financially compensated for working additional hours of service they provide to UTMB-CMC Division to fulfill a particular need for additional staffing (instead of earning state compensatory time as authorized in UTMB's policy).

Currently, UTMB has a policy regarding classified exempt employees earning state compensatory time. Because many full-time classified and non-teaching employees who also have pay-by-letter appointments are in exempt positions, awarding state compensatory time may be another option for compensating these individuals for the additional time they work in other areas.

See Appendix 5 for additional details on the amounts that UTMB-CMC Division spent on items such as salary actions, merit increases, market adjustments, and equity increases in fiscal years 2008 through 2010.

Recommendations

UTMB should seek approval from the Legislative Budget Board for any salary adjustments, including but not limited to, merits, market adjustments, and pay-by-letter arrangements for UTMB-CMC Division employees before any pay action is granted using funds appropriated for offender health care.

The Legislature may consider requiring UTMB to obtain approval from the Legislative Budget Board for any salary adjustments, including but not limited to, merits, market adjustments, and pay-by-letter arrangements for its employees using funds appropriated for providing offender health care.

UTMB May Be Charging UTMB-CMC Division for a Disproportionate Amount of UTMB's Indirect Costs

UTMB-CMC Division pays a portion of UTMB's institution-wide indirect administrative costs. These costs, which include any approved salary increases, are based on an allocation, and they include expenditures for UTMB institutional areas that are not directly related to providing health care to offenders. These administrative indirect costs are reflected as a shared services expense line item on UTMB-CMC Division's financial reports. In fiscal years 2009 and 2010, UTMB-CMC Division paid UTMB \$8.0 million and \$8.2 million, respectively (a total of \$16.2 million), for shared services costs.

Because UTMB has structured UTMB-CMC Division as a department within UTMB, UTMB-CMC Division shares in the administrative indirect cost allocation for departments that do not generate patient charges. Some of those departments do not provide health care to offenders or bear any relationship to the correctional managed health care program. See Appendix 6 for a list of the departments that are included in UTMB's indirect administrative cost allocation.

While UTMB-CMC Division pays UTMB for a portion of indirect administrative costs, UTMB also recovers a portion of its indirect costs through the negotiated inpatient/outpatient reimbursement amounts it charges UTMB-CMC Division for providing health care to offenders. The reimbursement amounts are set to recover what UTMB considers to be the costs to operate the Department of Criminal Justice hospital and the correctional managed health care program. The reimbursement amounts also include an inflation factor and reflect other budget assumptions, such as merit increases. For fiscal years 2009 and 2010, UTMB increased the reimbursement amounts by 4.5 percent and 5.0 percent, respectively. These costs are derived from an allocation of all of UTMB's operating expenditures and include the cost of items such as utilities, temporary employment agencies, and office supplies. The allocation assigns costs from UTMB's departments to account for health care provided to offenders at the Department of Criminal Justice hospital and at other UTMB hospitals and clinics.

UTMB-CMC Division also directly funds salaries for employees who support the provision of health care to offenders. UTMB spent approximately \$34 million on administrative salaries in fiscal years 2009 and 2010. Some of the employees whose salaries are charged directly to UTMB-CMC Division perform tasks that are considered administrative and correlate with areas already charged to UTMB-CMC Division as part of the indirect administrative cost allocation discussed above. For example, UTMB-CMC Division directly funds its own human resources staff with funds from the contract with the

Correctional Managed Health Care Committee. Additionally, UTMB-CMC Division pays for a portion of the salary costs related to UTMB's human resources department as part of its indirect administrative costs. Further, UTMB-CMC Division is charged reimbursement amounts for hospital services. Those reimbursement amounts include indirect administrative costs, such as the costs associated with human resources that are identified by UTMB.

Another example of UTMB-CMC Division's indirect cost allocation involves the Health Policy and Legislative Affairs Department. UTMB-CMC Division pays 33 percent of the Senior Vice President's⁴ salary and between 50-100 percent of the salaries for 3 staff. These salaries are directly funded from the contract with the Correctional Managed Health Care Committee. In addition to paying a direct portion of these salaries, UTMB-CMC Division is also charged for costs related to this department as an allocation of institution-wide indirect costs. These costs appear on UTMB-CMC Division's financial reports as part of the indirect cost (shared services) expense line item. The costs associated with this department are also included in the costs used to determine reimbursement amounts. These amounts are then charged to UTMB-CMC Division to recover UTMB's cost to operate the correctional managed health care program.

The indirect administrative costs charged to UTMB-CMC Division are in addition to the approximately \$561 million⁵ in General Revenue that UTMB received in state appropriations for operations other than correctional managed care operations in fiscal years 2009 and 2010.

Recommendations

UTMB should:

- Ensure that indirect cost categories it charges to UTMB-CMC Division are only for services that are reasonable and necessary to provide offender health care.
- Obtain approval from the Legislative Budget Board before charging any indirect costs to UTMB-CMC Division and using funds appropriated for the purpose of providing offender health care to cover those costs.

The Legislature may wish to consider determining whether UTMB-CMC Division funds appropriated for offender health care should be used to pay an

⁴ This person also received a \$125,460 TEAM award in fiscal year 2011 (see Appendix 4).

⁵ That amount is from the General Appropriations Act (80th Legislature) prior to any reductions that may have occurred during the 2010-2011 biennium.

allocated indirect cost, a reimbursement amount that includes indirect costs, or a combination of both.

Chapter 1-D

UTMB-CMC Division Charged More Than \$6.6 Million in Prohibited Expenditures; In Addition, Limited Contract Guidance Prevented Auditors from Determining Whether an Additional \$17.9 Million in Expenditures Were Reasonable and Necessary

Auditors tested a sample of UTMB-CMC Division expenditures from the \$715.9 million in total expenditures UTMB-CMC Division made to provide offender health care from fiscal year 2009 through April 30, 2010. Overall, the expenditures tested were adequately supported.

However, UTMB-CMC Division charged more than \$6.6 million in expenditures that were prohibited by the contract with the Correctional Managed Health Care Committee or state requirements. In addition, the contract does not provide enough guidance to ensure that funds are spent only for costs directly related to offender health care. Auditors also identified a net \$220,113 in overcharges to the contract and an additional \$17.9 million in expenditures that were not prohibited by the contract but may not be directly related to or necessary for delivering health care to offenders.

UTMB-CMC Division also should improve the classification and presentation of expenditures in its accounting records and financial reports to ensure that management and the Correctional Managed Health Care Committee have a clear understanding of how funds appropriated for offender health care are spent. Auditors noted a number of expenditure misclassifications in UTMB-CMC Division financial records.

UTMB-CMC Division charged more than \$6.6 million in prohibited expenditures.

Auditors identified \$6,607,166 in expenditures that were prohibited by the contract with the Correctional Managed Health Care Committee or state requirements (see Table 6).

Fringe Benefits

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:

- (1) Optional retirement program expenditures.
- (2) Old-age, survivors, and disability insurance expenditures.
- (3) Old age, survivors, disability, and health insurance expenditures.
- (4) 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.

The contract with the Correctional Managed Health Care Committee states that UTMB-CMC Division can use contract funds for unemployment insurance and worker’s compensation, but all other employee fringe benefits must be charged to the Teacher Retirement System, the Employees Retirement System, or other appropriations as determined by the Comptroller of Public Accounts.⁶ While the contract does not define fringe benefits, the Society for Human Resource Management’s⁷ definition of fringe benefits is broad and includes items such as paid vacation and holidays (see text box). Auditors included only selected fringe benefits to calculate unallowable expenditures (see text box for additional details).

In fiscal years 2009 and 2010, UTMB-CMC Division spent \$5,131,016 for employee benefits not authorized by the contract, including expenditures for retirees’ premiums and new employees’ health insurance.

The contract with the Correctional Managed Health Care Committee also states that UTMB must pay for coordinating funeral and autopsy services and for deceased offender expenses.⁸ However, in fiscal years 2009 and 2010, UTMB-CMC Division charged the Correctional Managed Health Care Committee contract \$1,476,150 for funeral and autopsy services.

Table 6

UTMB-CMC Division Expenditures That Were Prohibited by The Contract With the Correctional Managed Health Care Committee or State Requirements			
Expenditure Type	Fiscal Year 2009	Fiscal Year 2010	Total
Employee Benefits	\$2,527,528	\$2,603,488	\$5,131,016
Funeral and Autopsy	844,994	631,156	1,476,150
Totals	\$3,372,522	\$3,234,644	\$6,607,166

Source: UTMB-CMC Division fiscal year 2009 and 2010 expenditure records.

⁶ See Article XII, General Provision, Section K, in the fiscal year 2009 and 2010 contract with the Correctional Managed Health Care Committee.

⁷ According to the Society for Human Resource Management, it is the world’s largest association devoted to human resource management and represents more than 250,000 members in more than 140 countries.

⁸ See Article II, Section F - Centralized Statewide Services and Exhibit B, page 6, in the fiscal year 2009 and 2010 contract with the Correctional Managed Health Care Committee.

UTMB-CMC Division has established adequate controls to ensure that expenditures related to offender health care are properly supported; but it should strengthen controls to ensure that expenditures are allowable.

Auditors tested a sample of UTMB-CMC Division expenditures in categories such as salaries; employee benefits; travel; pharmaceuticals; and billings for physicians, inpatient services, and outpatient services from the \$715.9 million in expenditures made from fiscal year 2009 through April 30, 2010. In general, the expenditures tested were adequately supported.

However, UTMB-CMC Division should strengthen controls to ensure that expenditures are allowable. Auditors identified a net \$220,113 in overcharges to the Correctional Managed Health Care contract. Specifically:

- \$168,234 in fiscal year 2009 IBNR (incurred but not reported) charges remained unspent as of fiscal year 2011.
- 43 (31.2 percent) of 138 inpatient billing expenditures tested led to overcharges totaling \$44,187.
- 5 (8.9 percent) of 56 expenditures tested for license fee-professional, membership dues, and subscriptions tested led to overcharges totaling \$7,273.
- 15 (25.0 percent) of 60 pharmaceutical expenditures tested led to undercharges totaling \$1,713.
- 3 (5.0 percent) of 60 physician billing expenditures tested led to overcharges totaling \$412. Two of these expenditures were for services provided by nursing staff instead of physicians, and UTMB-CMC Division used an incorrect reimbursement rate for the remaining expenditure.
- 1 (or 2.1 percent) of 47 transportation expenditures tested led to overcharges totaling \$322.
- Maintenance and operations expenditure overcharges totaled \$1,399.

The contract with the Correctional Managed Health Care Committee does not provide sufficient guidance to ensure that funds will be spent only for costs directly related to offender health care.

The contract with the Correctional Managed Health Care Committee states that funds must be spent in accordance with Comptroller of Public Accounts' guidelines, and it includes limited restrictions on expenditures for items such as employee meals unless they are related to travel, gifts, awards, and costs for

employee celebrations.⁹ However, this guidance is not sufficient to clearly specify the types of expenditures that are reasonable and necessary for delivering offender health care.

Auditors identified \$17.9 million in fiscal year 2009 and 2010 expenditures that were not specifically prohibited by the contract but may not be directly related to or necessary for delivering offender health care (see Table 7).

Table 7

Fiscal Year 2009 and 2010 Expenditures That May Not Be Directly Related to or Necessary for Delivering Offender Health Care			
	Fiscal Year 2009	Fiscal Year 2010	Total
Salaries			
Employee Referral Bonus	\$ 122,250	\$ 115,750	\$238,000
Education Pay	27,202	28,802	56,004
Certification	<u>0</u>	<u>3,692</u>	<u>3,692</u>
Totals	\$149,452	\$ 148,244	\$297,696
Benefits			
Employee Tuition and School Books	\$122,454	\$149,036	\$271,490
Mobile Devices	<u>0</u>	<u>61,430</u>	<u>61,430</u>
Totals	\$122,454	\$210,466	\$332,920
Maintenance and Operations			
State Purchased Meals	\$177,755	\$ 93,833	\$ 271,588
Advertising	176,483	15,484	191,967
Conferences/Meetings/Registration Fees	98,266	83,689	181,955
Placement Fee	85,000	94,500	179,500
Employee Meals	172,308	1,700	174,008
Recruitment Expenses-Prospective Employees	20,028	8,269	28,297
Late Interest Charges	16,723	8,539	25,262
Parking Fees	6,500	3,880	10,380
Uniforms - Medical Staff	7,649	2,363	10,012
Educational/Training Service	0	4,845	4,845
Rental Aircraft	<u>0</u>	<u>3,524</u>	<u>3,524</u>
Totals	\$760,712	\$320,626	\$1,081,338
Indirect Costs/Shared Services			
Information Technology Services	\$5,000,035	\$3,649,383	\$ 8,649,418
Finance	1,583,487	858,576	2,442,063
Human Resources	1,120,412	1,990,807	3,111,219

⁹ See Article III, Payment Provision, Restrictions on Expenditures, in the fiscal year 2009 and 2010 contract with the Correctional Managed Health Care Committee.

Fiscal Year 2009 and 2010 Expenditures That May Not Be Directly Related to or Necessary for Delivering Offender Health Care			
	Fiscal Year 2009	Fiscal Year 2010	Total
Community Outreach, Health Policy, and Legislative Affairs	507,476	0	507,476
Logistics	194,164	151,282	345,446
Administration	<u>(346,740)</u>	<u>1,524,731</u>	<u>1,177,991</u>
Totals	\$8,058,834	\$8,174,779	\$16,233,613
Totals for All Categories	\$9,091,452	\$ 8,854,115	\$ 17,945,567

Source: UTMB-CMC Division expenditure records.

While some indirect costs may be necessary for providing offender health care, UTMB-CMC Division may be paying a disproportionate share of indirect costs (see Chapter 1-C on indirect costs for additional details). The State Auditor's Office identified a similar issue regarding the appropriateness or allowability of certain expenditures in a November 2004 audit report (see *An Audit Report on Management of Correctional Managed Health Care Contracts*, State Auditor's Office Report No. 05-012.)

Inappropriate classification of expenditures may prevent UTMB-CMC Division management and the Correctional Managed Health Care Committee from having a clear understanding of how funds appropriated for offender health care are spent.

UTMB-CMC Division does not always properly classify expenditures in the appropriate category. This could diminish the understanding of how funds are spent and prevent management and the Correctional Managed Health Care Committee from making appropriate decisions. For example:

- In fiscal year 2009, UTMB-CMC Division classified expenditures for physician contracted services totaling at least \$93,371 in six different ways: licensed professional services, medical services, other professional services, data processing services, temporary employment agencies, and offsite care.
- In fiscal years 2009 and 2010, UTMB-CMC Division classified at least \$38,127 in lodging expenditures as conferences and meetings. This type of expenditure should be classified as travel. In fiscal year 2009, the conferences and meetings category also included \$5,742 in job fair expenditures that should have been classified as a recruiting expense.

Furthermore, the manner in which some of the expenditure categories are presented in UTMB-CMC Division's financial reports may mislead management's understanding and prevent management from making appropriate decisions regarding correctional managed health care funds. For example, for fiscal years 2009 and 2010:

- The salaries category included \$238,000 in employee referral bonuses and \$56,004 in education pay. In addition, the fiscal year 2010 salaries category included \$3,692 in certification pay. Further, while the salaries category included \$13,820,756 for both fiscal years for the cost of using temporary agencies, an additional \$799,225 for temporary services was reported under maintenance and operations for fiscal year 2009.
- The benefits category included \$271,490 in employee tuition and school book reimbursements for both fiscal years. The fiscal year 2009 benefits also included \$1,053 in moving and relocation expenses, and the fiscal year 2010 benefits included \$61,430 for mobile devices.
- For fiscal years 2009 and 2010, the hospital services category included a total of \$12,967,218 for state paid staff benefits for the Department of Criminal Justice hospital. This hospital is a separate department within UTMB, and this expenditure would be more accurately reflected under employee benefits and should not be reflected on UTMB-CMC Division financial reports. These costs themselves were not questioned because a corresponding revenue was also reflected on the financial report.

See Appendix 7 for detailed information on how expenditures related to offender health care are presented in UTMB-CMC Division financial reports.

Recommendations

UTMB should:

- Strengthen controls over expenditures to ensure that only authorized expenditures are charged to the contract with the Correctional Managed Health Care Committee, and ensure that it maintains adequate supporting documentation for all expenditures.
- Work with the Correctional Managed Health Care Committee or another independent party to identify specific expenditures that are reasonable, allowable, and necessary to provide offender health care.
- Accurately classify all financial transactions related to UTMB-CMC Division so that management and the Correctional Managed Health Care Committee can make decisions based on accurate information.

UTMB-CMC Division Overestimated Cost Savings Related to Its Fiscal Year 2010 Reduction in Force by \$3.1 Million, and It Spent \$4.7 Million for Temporary Services to Supplement Its Work Force

Reduction in Force

In May 2010, UTMB-CMC Division announced that it would implement a reduction in force in July 2010 because it was projecting and experiencing a deficit.

UTMB-CMC Division projected that it would achieve a cost savings of \$14.7 million from the reduction in force; however, auditors determined the cost savings was \$11.6 million (\$3.1 million, or 21 percent, less than UTMB-CMC Division projected). Auditors' calculations considered \$557,498 in costs for accrued vacation time payouts and \$2.5 million in costs for the additional staffing related to UTMB-CMC Division's new staffing model.

In fiscal year 2010, UTMB-CMC Division reduced its staff by 292 full-time equivalent (FTE) positions. Of those 292 FTEs, 242 (83 percent) provided direct patient care and 50 (17 percent) were classified as administrative and professional staff. Of the 50 FTEs classified as administrative staff, only 3 worked in Galveston. Table 8 summarizes the direct patient care staff job classifications and numbers of FTEs included in the reduction in force.

Table 8

Direct Patient Care Staff Included in UTMB-CMC Division's Reduction in Force	
Job Classification	Number of FTEs Included In the Reduction in Force
Nurse Clinicians (Registered Nurses)	102.0
Medical Assistants	54.5
Facility Clinical Services Representatives	46.5
Assistant Nurse Managers	30.0
Vocational Nurses	4.0
Patient Care Technicians	3.0
Mid-level Practitioner	1.0
Optometrist	1.0
Total	242.0 FTEs

Source: UTMB-CMC Division.

According to UTMB-CMC Division, its intention in implementing the reduction in force was to modify clinical nurse (registered nurse) staffing levels and move to a staffing model that used more licensed vocational nurses. However, the opposite occurred. Specifically, the number of licensed

vocational nurses decreased from 655 FTEs in fiscal year 2010 to a budgeted 629 FTEs in fiscal year 2011, a reduction of approximately 4 percent.

Temporary Services

During fiscal year 2010, UTMB-CMC Division spent \$4.7 million on temporary services, which included services for ad locum physicians, mid-level practitioners, and temporary nursing staff. According to UTMB-CMC Division, it used temporary services to meet critical needs, cover staffing shortages, cover understaffed areas, and provide continuity of offender health care.

The use of temporary services can be costly because UTMB-CMC Division must pay base salaries, as well as the costs for related employment taxes (Social Security and Medicare), unemployment and workers' compensation insurance, and other administrative costs or overhead charges that the temporary agencies apply.

Recommendations

UTMB should:

- Perform a cost-benefit analysis prior to a reduction in force to ensure that it considers all direct and indirect costs (such as unemployment charge backs and accrued vacation leave payouts) in the calculation of potential cost savings.
- Develop a contingency plan to identify gaps in staffing and perform a cost-benefit analysis to determine the reasonableness of using temporary services.

UTMB's Organizational Structure Impairs Independence and Decision Making

The organizational placement of UTMB-CMC Division within UTMB does not allow for (1) independent decision making and (2) review and approval of critical expenditures that are charged to the contract with the Correctional Managed Health Care Committee (the UTMB-CMC Division contract). This is because UTMB has established UTMB-CMC Division as a department within the institution. As a result, UTMB both oversees UTMB-CMC Division and provides services to UTMB-CMC Division as a contracted client.

**Excerpts from
Texas Government Code,
Section 501.148**

CHAPTER 501.148. GENERAL POWERS AND DUTIES OF [THE CORRECTIONAL MANAGED HEALTH CARE COMMITTEE]... (4) allocate funding made available through legislative appropriations for correctional health care; (5) monitor the expenditures of the University of Texas Medical Branch at Galveston and the Texas Tech University Health Sciences Center to ensure that those expenditures comply with applicable statutory and contractual requirements.

The relationship between UTMB and UTMB-CMC Division represents a weakness in segregation of duties and affects all aspects of UTMB-CMC Division operations, including salaries, reimbursement amount structures, and allowable costs. This relationship also minimizes the oversight role of the Correctional Managed Health Care Committee as established in Texas Government Code, Section 501.148 (see text box).

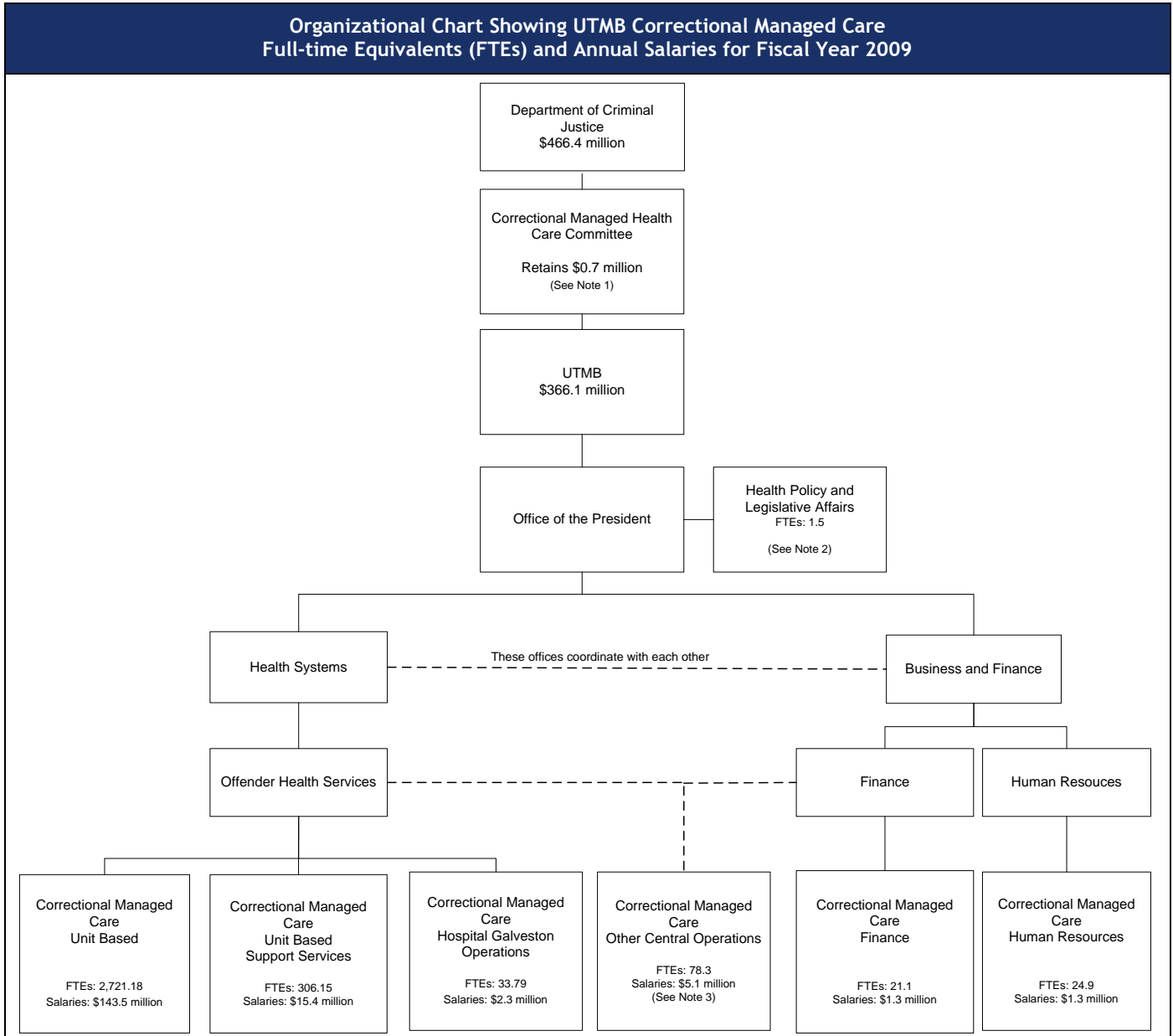
UTMB-CMC Division has established its own administrative and support staff for finance, human resources, and contracts. Their responsibilities include:

- Reporting and tracking UTMB-CMC Division expenditures.
- Managing health care staff to ensure that UTMB-CMC Division provides adequate medical services to offenders.
- Contracting with external organizations that also provide medical services to offenders.

In addition, UTMB has a Health Policy and Legislative Affairs division that is responsible for maintaining state legislative and county government relationships for UTMB. A portion of the salaries for the employees in that division are charged to UTMB-CMC Division.

Figure 1 shows the flow of funds from the Department of Criminal Justice to UTMB and identifies the UTMB departments that are involved in providing offender health care services.

Figure 1



Note 1: Of the \$466.4 million it receives from the Department of Criminal Justice, the Correctional Managed Health Care Committee retains \$0.7 million for its operations, passes \$99.6 million through to the Texas Tech University Health Sciences Center, and passes \$366.1 million to UTMB.

Note 2: The Health Policy and Legislative Affairs salary amount is approximately \$70,000 for fiscal year 2009.

Note 3: The departments included in Other Central Operations report to either Offender Health Services or Finance/Human Resources and include CMC - Information Services, CMC - Utilization Review, CMC - Human Development, UTMB/TDCJ Managed Care Administration, Medical Warehouse-Huntsville, and TDCJ Mental Health - Galveston.

Source: Developed by auditors based on information that UTMB provided.

According to UTMB, it is responsible for controlling or managing the costs of the offender health care program.

Reimbursement amount structure. As discussed in Chapter 1-A, UTMB develops reimbursement amounts for offender health care internally without independent review and approval from the Correctional Managed Health Care Committee. As a client and department of UTMB, UTMB-CMC Division negotiates amounts that it will charge itself for providing health care to offenders.

As Chapter 1-A also discussed, the UTMB-CMC Division vice president of finance reports directly to the executive vice president of finance for UTMB, and these two individuals sign the memorandum of understanding that determines how much the UTMB-CMC Division contract will be charged for health care provided to offenders. The Correctional Managed Health Care Committee does not sign this memo, and it is not involved in the process to determine the amounts charged to the UTMB-CMC Division contract.

Salaries. The UTMB-CMC Division contract directly funds the salaries and pay increases for UTMB-CMC Division staff. As discussed in Chapter 1-B, UTMB-CMC Division is allocated a portion of UTMB's administrative costs because it is a department within UTMB. These costs include institution-wide salary and merit increases. As a result, the UTMB-CMC Division contract is charged for a portion of any salary actions that occur throughout UTMB (see Chapter 1-C for more details on indirect cost allocation). Salary actions and the methodology used to allocate administrative costs to UTMB-CMC Division are not reviewed or approved by the Correctional Managed Health Care Committee.

Allowable expenditures. The financial division within UTMB-CMC Division reviews, processes, and approves expenditures charged to the UTMB-CMC Division contract. Therefore, UTMB-CMC Division, which is a UTMB department, is approving its own expenditures. Some of these expenditures include travel, employee benefits, and charges for hospital services (see Chapter 1-D for additional information on the allowability of expenditures). Although the Correctional Managed Health Care Committee conducts monthly reviews of a small sample (25 items) of expenditures for each higher education institution that provides offender health care, the amount of detailed information it obtains to review these expenditures is limited. As a result, the Correctional Managed Health Care Committee may not have sufficient information to make decisions regarding whether certain expenditures are reasonable and necessary to providing health care to offenders.

Recommendations

The Executive Director of the Correctional Managed Health Care Committee should coordinate with the Legislative Budget Board and UTMB to determine the most effective way to create transparency and independence in the decision making process regarding the reimbursement amount structure, salary adjustments, and allowable costs related to providing health care to offenders.

The Legislature may consider restructuring the Correctional Managed Health Care Committee and/or UTMB-CMC Division to add transparency and independence to the decision making process related to offender health care.

UTMB Fully or Substantially Implemented All Prior State Auditor's Office Recommendations Related to Supporting Documentation, Deficit Calculation, and Information Technology

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

UTMB has made significant progress in implementing recommendations from *An Audit Report on Correctional Managed Health Care Funding Requirements* (State Auditor's Office Report No. 07-017, March 2007). All 16 of the recommendations auditors reviewed were fully or substantially implemented (see Table 9). While UTMB has made progress in implementing the prior audit recommendations, it should continue its efforts to maintain supporting documentation for capital items and improve its processes related to torts and moving expenses.

Table 9

UTMB Status of Implementation of Prior Audit Recommendations			
No.	Recommendation	Implementation Status	Auditor Comments
1	The UT Medical Branch should maintain documentation for all medical procedures to ensure that there is supporting documentation showing that patient services were actually provided.	Fully Implemented	UTMB had adequate supporting documentation showing patient services were provided for (1) the 90 fiscal year 2009 in-patient expenditures and (2) the 48 fiscal year 2010 in-patient expenditures that auditors tested.
2	The UT Medical Branch should maintain documentation for the cost of all capital items and ensure it uses the proper base amounts to allocate those costs.	Substantially Implemented	Auditors tested 45 fiscal year 2009 capital items and determined that UTMB had inadequate supporting documentation for 34 (76 percent) of them. However, UTMB had adequate supporting documentation for all 17 fiscal year 2010 capital items that auditors tested.
3	The UT Medical Branch should develop procedures to adjust the torts and judgments amounts for actual payments when reporting a future deficit or surplus. In financial reports to the Correctional Managed Health Committee, it should improve transparency by separately disclosing the amount of torts and judgments associated with (1) cases for which a trial or settlement has not yet been held and (2) cases for which a trial or settlement has been held and a final amount has been determined.	Substantially Implemented	While UTMB continues to include accruals for tort liabilities in its deficit calculation, it does disclose the amount of accruals/reversals related to torts on its correctional managed care financial reports.
4	The UT Medical Branch should omit moving and relocation expenditures from its calculation of correctional managed health care costs. In addition, the UT Medical Branch should work with the Correctional Managed Health Care Committee to revise its contract to comply with guidelines from the Comptroller of Public Accounts.	Substantially Implemented	In fiscal year 2009, UTMB omitted all but \$1,053 of moving and relocation expenses from its calculation of correctional managed care costs and in fiscal year 2010, UTMB omitted all moving and relocation expenses from its calculation of correctional managed care costs.

UTMB Status of Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status	Auditor Comments
5	The UT Medical Branch should develop a process to identify cost allocation methodologies and provide documentation to support the correctional managed health care costs paid by the hospital to the School of Medicine. The documentation should include details of the indirect costs and how they are allocated to each patient to ensure the costs are (1) valid charges that relate to and support correctional managed health care and (2) accurate and supported.	Substantially Implemented	UTMB has developed a cost allocation methodology. However, that methodology may allocate costs that are not related to providing reasonable and necessary health care to offenders.
6	The UT Medical Branch should properly research all financial transactions identified as having errors before it corrects those transactions in its financial accounting system.	Fully Implemented	UTMB has enabled edits in the financial system that validate that transactions are coded correctly before they are processed through the system.
7	The UT Medical Branch should ensure that all amounts extracted from its financial reporting system are accurately processed in its hospital's cost accounting system.	Fully Implemented	UTMB implemented reconciliations for data that is loaded from the patient accounting and financial systems into the hospital's cost accounting system.
8	The UT Medical Branch should ensure that documentation indicating that the hospital's cost accounting system's data is accurate and based on the data that was input into the cost accounting system.	Fully Implemented	UTMB implemented reconciliations for data that is loaded from the patient accounting and financial systems into the hospital's cost accounting system.
9	The UT Medical Branch should update procedures for extracting data from its financial reporting system and inputting it into the hospital's cost accounting system to include procedures for (1) reconciling input/output amounts and (2) the retention of that reconciliation.	Fully Implemented	UTMB implemented procedures that describe the data processes used in operating its hospital cost accounting system, to include uploading data from its financial reporting system to the hospital's cost accounting system.
10	The UT Medical Branch should ensure that all users of administrative accounts have and use uniquely identifiable accounts to access both the server and database.	Fully Implemented	UTMB restricted access to administrative functionality in its financial system to authorized personnel and implemented unique accounts in its financial system.
11	The UT Medical Branch should ensure that all users have access rights that are the minimum necessary to perform their job duties.	Fully Implemented	UTMB implemented an additional product to help ensure that it properly controls access to technology resources.
12	The UT Medical Branch should ensure that all generic administrative accounts are properly protected and used only when required.	Fully Implemented	UTMB implemented an additional product to help ensure that it properly controls access to technology resources.
13	The UT Medical Branch should ensure that all user accounts have password and account parameters that conform to industry best practices as required by the Texas Administrative Code (TAC).	Fully Implemented	UTMB changed authentication methods to help ensure that password and account lockout settings follow UTMB policy and TAC.
14	The UT Medical Branch should ensure that it follows vendor security guidance when configuring and implementing automated systems.	Fully Implemented	UTMB changed some settings to help provide a more secure database infrastructure.

UTMB Status of Implementation of Prior Audit Recommendations

No.	Recommendation	Implementation Status	Auditor Comments
15	<p>The UT 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.</p> <p>The UT Medical Branch should then use this information to determine whether it should adjust the allocation percentages in its payroll system.</p>	Fully Implemented	Although not all units' personnel use the Kronos timeclocks system to record the time that they work, auditors tested a sample of UTMB salaries for fiscal years 2009 and 2010 and did not identify any errors related to time spent working at the prison units.
16	The UT Medical Branch should develop and implement a specific methodology (such as using trend analysis of historical data) to project future revenues and expenditures.	Fully Implemented	UTMB's methodology to project revenues and expenditures is based on legislative appropriated amount(s) minus actual UTMB billed amounts.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Examine the shortfall reported by the Correctional Managed Health Care Committee (Committee) for fiscal year 2009, the projected shortfall reported by the Committee for the 2010-2011 biennium, and any projected shortfall reported in the 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 the University of Texas Medical Branch at Galveston's (UTMB) actual and projected 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 previous state auditor recommendations at UTMB.

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 UTMB, the Correctional Managed Health Care Committee, and the Department of Criminal Justice.

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 UTMB.

- Correctional Managed Health Care Committee and UTMB policies and procedures.
- Revenue UTMB received from the Correctional Managed Health Care Committee.
- UTMB's expenditures related to salaries and benefits; hospital costs; professional services; off-site contracts; pharmacy costs; license fees, subscriptions, and memberships; torts and other judgments; moving and relocation; and indirect costs.
- Budgeting process documentation.
- Actuarial documentation.
- Financial reports that UTMB submitted to the Correctional Managed Health Care Committee.
- UTMB reduction in force and employee salary action documentation.
- UTMB financial systems.
- Reports from UTMB internal audits.

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 to offender health care for fiscal years 2009 and 2010.
- Verification of amounts paid by the Correctional Managed Health Care Committee and received by UTMB.
- Review of deficit revisions and calculations for fiscal years 2009 and 2010.
- Review of (1) processes for projecting funding deficits in fiscal years 2010 and 2011 and (2) the Correctional Managed Health Care Committee's legislative appropriations request for fiscal years 2012 and 2013.
- Review of UTMB 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 UTMB, the Correctional Managed Health Care Committee, and the Department of Criminal Justice.
- Analysis of employee salary actions and reduction in force data.

- Analysis of the number of offenders and prison units served.
- Analysis of transportation and travel costs.
- Comparison of UTMB reimbursement amounts with Medicare, Medicaid, and a major private insurance carrier's reimbursement amounts.
- Comparison of actuarial documentation with prison population data.

Methodology for Validating UTMB Correctional Managed Health Care Rates

Physician Services

Auditors reviewed the memorandum of understanding between UTMB and the correctional managed health care division (UTMB-CMC Division), which established the physician billing rate at 49 percent of billed charges for fiscal years 2009 and 2010. Auditors tested 29 physician inpatient and outpatient records for fiscal year 2010 and determined that UTMB-CMC Division billed at the 49 percent reimbursement rate for physician services. Additionally, auditors analyzed 5 UTMB correctional managed care (UTMB-CMC Division) procedure types from the most costly and most frequently performed procedures. Auditors requested the corresponding physician billing amounts and then compared the UTMB-CMC Division physician reimbursement amounts provided for those five procedure types to the physician reimbursement amounts that UTMB provided for Medicare, Medicaid, and a major private insurance carrier. Analysis of these physician records resulted in auditors' calculation of a UTMB-CMC Division physician billing rate of 49 percent, which was equivalent to 144 percent of Medicare's physician reimbursement amount for the same procedure types on average. UTMB's School of Medicine then provided auditors with information specifying that the UTMB-CMC Division reimbursement amount for physician services was, on average, 135 percent of the standard Medicare reimbursement amount for physician services. Auditors used the 135 percent as a conservative method for recalculating UTMB costs at 100 percent of standard Medicare reimbursement amounts.

Inpatient Hospital Services

Auditors reviewed the memorandum of understanding between UTMB and UTMB-CMC Division, which established a standard dollar amount for fiscal years 2009 and 2010 by which to bill inpatient hospital services. Auditors calculated the percentage change between the fiscal year 2010 standard dollar amount for Medicare (\$5,619.94) and UTMB-CMC Division's standard dollar amount for inpatient services (\$8,062.18). This resulted in a 143.5 percent increase over the Medicare standard dollar amount, which validates the rate.

Additionally, auditors tested 48 inpatient services records for fiscal year 2010 and validated that UTMB-CMC Division was billed at the agreed upon

standard dollar amount for inpatient hospital services times Medicare's assigned diagnostic rate group weight factor.

Auditors also validated the 143.5 percent reimbursement rate for inpatient services by analyzing 5 UTMB-CMC Division procedure types from the most costly and most frequently performed procedures. Auditors requested the corresponding inpatient billing amounts and then compared the UTMB-CMC Division inpatient reimbursement amounts provided for those 5 procedure types to the inpatient reimbursement amounts provided by UTMB for Medicare, Medicaid, and a major private insurance carrier. Analysis of these 5 procedure types resulted in auditors' calculation of a UTMB-CMC Division inpatient hospital services billing rate of 143.5 percent of Medicare's inpatient reimbursement amount for the same procedure types, on average.

Outpatient Lab Services

UTMB provided auditors with the fiscal year 2010 reimbursement rate of 20.2 percent of billed charges for outpatient lab services. Auditors validated the 20.2 percent reimbursement rate for outpatient lab services by analyzing 5 UTMB-CMC Division procedure types from the most costly and most frequently performed procedures. Auditors requested the corresponding outpatient lab billing amounts and then compared the UTMB-CMC Division outpatient lab reimbursement amounts provided for those 5 procedure types to the outpatient reimbursement amounts provided by UTMB for Medicare, Medicaid, and a major private insurance carrier. Analysis of these 5 procedure types resulted in auditors' calculation of a UTMB outpatient lab hospital services billing rate of 111.3 percent of Medicare's outpatient lab reimbursement amount for the same procedure types, on average.

The 5 procedure types selected for the outpatient lab services represent 38 percent of the total number of outpatient lab procedures performed and 41 percent of the total dollar amount of outpatient lab services charges for fiscal year 2009.

Other Outpatient Services

UTMB provided auditors with the fiscal year 2010 reimbursement rate of 38.6 percent of billed charges for outpatient other services. Auditors validated the 38.6 percent reimbursement rate for outpatient other services by analyzing 10 UTMB-CMC Division procedure types from the most costly and most frequently performed procedures. Auditors requested the corresponding other outpatient reimbursement amounts and then compared the UTMB-CMC Division other outpatient reimbursement amounts provided for those 10 procedure types to the outpatient reimbursement amounts provided by UTMB for Medicare, Medicaid, and a major private insurance carrier. Analysis of these 10 procedure types resulted in auditors' calculation of a UTMB other

outpatient services billing rate of 140 percent of Medicare's other outpatient reimbursement amount for the same procedure types, on average.

The 10 procedure types selected for the other outpatient services represent 52 percent of the total number of other outpatient services procedures performed and 42 percent of the total dollar amount of other outpatient services charges for fiscal year 2009.

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).
- UTMB and Correctional Managed Health Care Committee policies and procedures.
- Contract between the Correctional Managed Health Care Committee and UTMB.

Project Information

Audit fieldwork was conducted from May 2010 through December 2010. 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

- Brian Kevin Jones, CGAP
- Ann E. Karnes, CPA
- Seorin Kim, CPA
- Jennifer Lehman, MBA, CGAP
- Stacey Robbins McClure, MBA, PHR, CCP
- Kelley N'gaide, CFE
- Anthony T. Patrick, MBA
- Michele Pheeney, MBA
- Sharon Schneider, PHR
- 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)

Excerpt from a February 2010 UTMB Presentation Regarding the UTMB-CMC Division Budget

Figure 2 is an excerpt from a February 2010 presentation that the University of Texas Medical Branch at Galveston (UTMB) made regarding the budget for correctional managed health care (UTMB-CMC Division). According to this presentation, UTMB-CMC Division projected an \$82.3 million deficit for items not funded in the legislative appropriations request for fiscal years 2010 and 2011. However, UTMB-CMC Division has revised its projected deficit to \$70.7 million for fiscal years 2010 and 2011. Also see Table 1, Note a, on page iv for additional reductions on the deficit UTMB reported subsequent to audit fieldwork.

Figure 2

Excerpt from a February 2010 UTMB Presentation Regarding the UTMB-CMC Division Budget			
UTMB Correctional Managed Care: 81st Legislative Session Funding			
UTMB CMC Supplemental Appropriations Request (SAR) FY 08 & 09:			
	FY08	FY09	Biennium
Original SAR (Jan 09)	\$ 14,720,961	\$ 22,658,900	\$ 37,379,861
Final SAR (end of May 09)	\$ 14,720,961	\$ 34,390,000	\$ 49,110,961
SAR Appropriated (end of May 09)	\$ 14,720,961	\$ 31,848,300	\$ 46,569,261
Difference/Not Appropriated	\$ -	\$ 2,541,700	\$ 2,541,700
Additional Losses (over May est.)	\$ -	\$ 10,264,021	\$ 10,264,021
Total FY09 Unfunded:	\$ -	\$ 12,805,721	\$ 12,805,721
UTMB CMC Legislative Appropriations Request (LAR) FY 10 & 11:			
	FY10	FY11	Biennium
Base Appropriation (Jan 09):	\$ 329,579,335	\$ 329,579,335	\$ 659,158,670
LAR Items 1-5 (Jan 09):	\$ 48,522,334	\$ 63,886,495	\$ 112,408,829
Total Requested Needs	\$ 378,101,669	\$ 393,465,830	\$ 771,567,499
Appropriation / CMHCC Contract ⁽¹⁾	\$ 366,066,629	\$ 363,167,053	\$ 729,233,682
Difference - Requested & Not Appropriated	\$ 12,035,040	\$ 30,298,777	\$ 42,333,817
SAR Requested & Not Funded	\$ 2,541,700	\$ 2,541,700	\$ 5,083,400
SAR funded not added to base needs { \$31,848,300 - \$26,004,610 }	\$ 5,843,690	\$ 5,843,690	\$ 11,687,380
Total FY10 & 11 Requested and Unfunded:	\$ 20,420,430	\$ 38,684,167	\$ 59,104,597
Other Unfunded Items Not in Legislative Appropriations Request:			
	FY10	FY11	Biennium
Impact of 2009 Additional Losses and Other Items Not in Legislative Request	\$ 9,978,821	\$ 13,258,070	\$ 23,236,891
TOTAL PROJECTED SHORTFALL	\$ 30,399,251	\$ 51,942,237	\$ 82,341,488
⁽¹⁾ Excludes Marlin VA funding - contingent on opening			
			

Source: UTMB.

Comparison of UTMB-CMC Division, Medicare, Medicaid, and a Major Private Insurance Carrier's Reimbursement Amounts

Table 10 compares the University of Texas Medical Branch at Galveston (UTMB) correctional managed health care division (UTMB-CMC Division) reimbursement amounts for four service types with Medicare, Medicaid, and a major private insurance carrier's reimbursement amounts.

Table 10

Comparison of Reimbursement Amounts for UTMB-CMC Division, Medicare, Medicaid, and a Major Private Insurance Carrier									
Service Type	UTMB Hospital Charges	Reimbursement							
		UTMB-CMC Division		Medicare		Medicaid		Major Private Insurance Carrier	
		Amount	Percent of Hospital Charges	Standard Amount Only	Percent of Hospital Charges	Amount	Percent of Hospital Charges	Amount	Percent of Hospital Charges
Physician Services	\$7,541	\$3,695	49%	\$2,564	34%	\$2,029	27%	\$3,406	45%
Inpatient Services	\$902,494	\$240,528	27%	\$167,666	19%	\$487,347	54%	\$224,222	25%
Outpatient Lab Services	\$460	\$93	20%	\$84	18%	\$84	18%	\$368	80%
Other Outpatient Services	\$121,391	\$46,857	39%	\$33,474	28%	\$52,198	43%	\$97,113	80%

Source: Auditor analysis of hospital charges and reimbursement amounts provided by UTMB.

Because UTMB is a teaching hospital, for inpatient services UTMB receives additional Medicare reimbursement amounts for indirect medical education and direct graduate medical education to reflect the higher patient care costs of teaching hospitals relative to non-teaching hospitals. UTMB also receives an additional Medicare reimbursement amount for inpatient services for serving low-income patients because UTMB is classified as a disproportionate share hospital. As Table 11 shows, including these additional reimbursement amounts would make the total Medicare reimbursement amount for inpatient services higher than the UTMB-CMC Division reimbursement amount.

Table 11

Comparison of Inpatient Services Reimbursement Amounts for UTMB-CMC Division and Medicare				
Including Additional Medicare Reimbursements for Indirect Medical Education (IME), Disproportionate Share Hospital (DSH), and Direct Graduate Medical Education (DGME)				
	UTMB Hospital Charges	Reimbursement		Difference Between Hospital Charges and Reimbursement Amount
		Amount	Percent of Hospital Charges	
UTMB-CMC Division				
Reimbursement Amount	\$902,494	\$240,528	27%	\$661,966
Medicare				
Standard Reimbursement Amount	\$902,494	\$167,666	19%	\$734,828
Standard Reimbursement Amount Plus IME	\$902,494	\$280,478	31%	\$622,016
Standard Reimbursement Amount Plus IME and DSH	\$902,494	\$361,079	40%	\$541,415
Standard Reimbursement Amount Plus IME, DSH, and DGME	\$902,494	\$367,197	41%	\$535,297

Source: Auditor analysis of hospital charges and reimbursement amounts provided by UTMB.

Information Regarding \$7.7 Million in TEAM Award Payouts to UTMB Employees

In November 2010, the University of Texas Medical Branch at Galveston (UTMB) awarded \$7,747,621 in Together Employees Achieve More (TEAM) award payouts to employees after it reported what one newspaper article¹⁰ referred to as “a positive adjusted margin of \$37.5 million” for fiscal year 2010. UTMB employees, other than faculty, who accomplished specific financial and programmatic goals that had been determined to be critical to UTMB’s success at the beginning of fiscal year 2010 were eligible for these award payouts. Individual TEAM award payouts ranged from \$94 to \$182,091.

According to a UTMB TEAM award talking points document, correctional managed care (UTMB-CMC Division) employees were not eligible to receive these award payouts because of the deficit reported within that department. However, auditors determined that the salaries of 40 TEAM award payout recipients were fully or partially funded with UTMB-CMC Division funds. One of these recipients, the Senior Vice President for Health Policy and Legislative Affairs, received \$125,460.

¹⁰ Elder, Laura (23 November 2010). “UTMB back in the black.” *The Galveston County Daily News*. Retrieved from <http://galvestondailynews.com/story/192694> on December 10, 2010.

UTMB-CMC Division Salary Adjustments in Fiscal Years 2008 through 2010

Table 12 presents the University of Texas Medical Branch at Galveston correctional managed care (UTMB-CMC Division) salary actions and annual increases awarded to administrative and professional, classified, and non-teaching employees in fiscal years 2008 through 2010.

Table 12

UTMB-CMC Division Salary Actions and Annual Salary Increases for Administrative and Professional, Classified, and Non-teaching Employees ^a						
Salary Actions Reason	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Number of Salary Actions	Annual Salary Increase	Number of Salary Actions	Annual Salary Increase	Number of Salary Actions	Annual Salary Increase
Administrative and Professional Employees						
Additional Responsibilities	0	\$ 0	1	\$ 10,000	0	\$ 0
Market	13	166,276	10	116,570	0	0
Merit	24	107,419	22	116,638	18	86,166
Reclassification	1	7,347	1	20,447	0	0
Other	0	0	1	10,000	0	0
Promotion	0	0	0	0	1	22,206
Temporary Increase	<u>2</u>	<u>49,554</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 0</u>
Totals	40	\$330,596	35	\$273,655	19	\$108,372
Classified Employees						
Additional Responsibilities	8	\$ 41,763	3	\$ 12,642	1	\$ 6,915
Adjustment	24	83,858	2	2,580	0	0
Equity	59	185,404	37	137,790	6	39,072
Full-time Equivalent (FTE) Adjustment	0	0	0	0	0	0
License/Certification	6	13,276	8	17,940	7	29,397
Market	88	453,730	298	1,151,975	2	2,300
Merit	2,209	3,041,399	2,387	3,369,412	22	31,310
Other	65	183,472	24	85,831	5	29,248
Promotion	10	73,568	6	29,573	13	66,737
Reclassification	24	223,890	4	39,101	23	104,314
Temporary Increase	3	11,845	1	4,047	0	0
Transfer with Increase	1	\$4,160	16	74,549	9	42,365
Under Minimum Adjustment	<u>22</u>	<u>\$ 12,232</u>	<u>85</u>	<u>\$ 50,661</u>	<u>14</u>	<u>\$ 18,776</u>
Totals	2,519	\$4,328,597	2,871	\$4,976,101	102	\$370,434

**UTMB-CMC Division Salary Actions and Annual Salary Increases for
Administrative and Professional, Classified, and Non-teaching Employees^a**

Salary Actions Reason	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Number of Salary Actions	Annual Salary Increase	Number of Salary Actions	Annual Salary Increase	Number of Salary Actions	Annual Salary Increase
Non-teaching Employees						
Adjustment	1	\$ 3,322	0	\$ 0	0	\$ 0
Additional Responsibilities	0	0	2	13,668	0	0
Equity	3	14,642	1	9,508	2	25,993
Market	136	1,517,023	63	947,483	0	0
Merit	114	459,285	127	589,134	0	0
Other	12	77,032	4	100,000	0	0
Promotion	<u>1</u>	<u>17,050</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	267	\$2,088,354	197	\$1,659,793	2	\$ 25,993
Totals for All Salary Actions	2,826	\$6,747,547	3,103	\$6,909,549	123	\$504,799

^a These amounts have been annualized.

Source: UTMB-CMC Division.

Table 13 presents the annual minimum and maximum salary increases UTMB-CMC Division awarded to administrative and professional, classified, and non-teaching employees in fiscal years 2008 through 2010.

Table 13

UTMB-CMC Division Annual Minimum and Maximum Salary Increases for Administrative and Professional, Classified, and Non-teaching Employees ^a						
Salary Action Reason	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Annual Minimum Increase	Annual Maximum Increase	Annual Minimum Increase	Annual Maximum Increase	Annual Minimum Increase	Annual Maximum Increase
Administrative and Professional Employees						
Additional Responsibilities	\$0	\$0	\$10,000	\$10,000	\$0	\$0
Market	\$9,996	\$13,905	\$5,134	\$19,000	\$0	\$0
Merit	\$1,690	\$12,004	\$3,000	\$ 8,250	\$1,950	\$10,300
Reclassification	\$7,347	\$7,347	\$20,447	\$20,447	\$0	\$0
Other	\$0	\$0	\$10,000	\$10,000	\$0	\$0
Promotion	\$0	\$0	\$0	\$0	\$22,206	\$22,206
Temporary Increase	\$18,343	\$31,211	\$0	\$0	\$0	\$0
Classified Employees						
Additional Responsibilities	\$1,544	\$12,300	\$3,689	\$4,814	\$6,915	\$6,915
Adjustment	\$270	\$5,204	\$1,110	\$1,470	\$0	\$0
Equity	\$1,128	\$10,000	\$500	\$11,251	\$1,720	\$10,567
License/Certification	\$2,155	\$2,287	\$1,800	\$2,601	\$2,085	\$10,556
Market	\$700	\$18,000	\$2,054	\$5,813	\$580	\$1,720
Merit	\$80	\$6,067	\$152	\$4,851	\$625	\$2,516
Other	\$553	\$10,000	\$600	\$10,000	\$0	\$20,000
Promotion	\$2,438	\$17,720	\$1,026	\$9,169	\$187	\$16,414
Reclassification	\$872	\$31,000	\$1,306	\$15,490	\$195	\$15,162
Temporary Increase	\$2,992	\$4,800	\$4,047	\$4,047	\$0	\$0
Transfer with Increase	\$4,160	\$4,160	\$383	\$15,108	\$2,155	\$13,595
Under Minimum Adjustment	\$37	\$1,138	\$2	\$1,962	\$580	\$1,840
Non-Teaching Employees						
Adjustment	\$3,322	\$3,322	\$0	\$0	\$0	\$0
Additional Responsibilities	\$0	\$0	\$4,964	\$8,704	\$0	\$0
Equity	\$2,299	\$8,302	\$9,508	\$9,508	\$9,000	\$16,993
Market	\$7,537	\$24,111	\$10,638	\$16,311	\$0	\$0
Merit	\$1,511	\$8,433	\$1,647	\$10,152	\$0	\$0
Other	\$4,737	\$10,000	\$10,000	\$30,000	\$0	\$0
Promotion	\$17,050	\$17,050	\$0	\$0	\$0	\$0

UTMB-CMC Division Annual Minimum and Maximum Salary Increases for Administrative and Professional, Classified, and Non-teaching Employees ^a						
Salary Action Reason	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Annual Minimum Increase	Annual Maximum Increase	Annual Minimum Increase	Annual Maximum Increase	Annual Minimum Increase	Annual Maximum Increase
^a These amounts have been annualized.						

Source: UTMB-CMC Division.

Table 14 presents the number of salary actions and annual salary decreases UTMB-CMC Division made for administrative and professional, classified, and non-teaching employees in fiscal years 2008 through 2010.

Table 14

UTMB-CMC Division Salary Actions and Annual Salary Decreases for Administrative and Professional, Classified, and Non-teaching Employees ^a						
Salary Action Reason	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Number of Salary Actions	Annual Salary Decrease	Number of Salary Actions	Annual Salary Decrease	Number of Salary Actions	Annual Salary Decrease
Administrative and Professional Employees						
(no salary decreases)						
Classified Employees						
Equity	0	\$ 0	6	(\$28,959)	0	\$ 0
FTE Adjustment	0	0	1	(8,000)	0	0
Reclassification	0	0	2	(22,568)	0	0
Transfer with Decrease	1	(4,160)	23	(109,073)	26	(180,949)
Decrease	1	(4,800)	6	(23,978)	1	(4,047)
Adjustment	1	(1,771)	0	0	0	0
Other	<u>2</u>	<u>(8,462)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	5	(\$19,193)	38	(\$192,578)	27	(\$184,996)
Non-teaching Employees						
Decrease	<u>0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>	<u>2</u>	<u>(\$14,964)</u>
Totals	0	\$0	0	\$0	2	(\$14,964)
Totals for All Salary Actions	5	(\$19,193)	38	(\$192,578)	29	(199,960)
^a These amounts have been annualized.						

Source: UTMB-CMC Division.

Table 15 presents the number of market adjustments and annual increases UTMB-CMC Division awarded in fiscal years 2008 and 2009 to administrative and professional, classified, and non-teaching employees.

Table 15

UTMB-CMC Division Market Adjustments and Annual Increases				
Job Title	Fiscal Year 2008		Fiscal Year 2009	
	Number of Market Adjustments	Amount Awarded	Number of Market Adjustments	Amount Awarded
Administrative and Professional Employees				
Cluster Dental Director	5	\$ 67,441	6	\$ 67,736
Director Contracts and Supply Administration Correctional Managed Care	0	0	1	5,700
Director Dental Services	1	11,958	0	0
Director Nursing Services Correctional Managed Care	2	27,540	0	0
Director Operations Managed Care	2	19,992	0	0
Director Support Services Correctional Managed Care	0	0	1	5,134
Division Director of Dental Services	<u>0</u>	<u>0</u>	<u>2</u>	<u>38,000</u>
Totals	10	\$126,931	10	\$116,570
Classified Employees				
Asst Director Pharmacy Services	2	\$ 18,735	0	\$ 0
Caseworker	3	26,628	0	0
Cluster Nurse Manager	1	8,868	26	132,310
Coordinator of Information Systems	1	2,198	0	0
Counseling Specialist II	1	5,006	0	0
Dental Assistant	0	0	2	4,311
Dental Assistant Coordinator	0	0	8	22,400
Dialysis Patient Care Technician	1	2,130	0	0
Driver	12	28,531	0	0
Facility Nurse Manager	0	0	16	73,029
Human Resources Coordinator I	2	1,428	0	0
Human Resources Coordinator II	6	7,430	0	0
HR Manager, Senior	2	7,512	0	0
Human Resources Consultant	2	5,047	0	0
Human Resources Generalist	3	5,575	0	0
Medical Laboratory Technician	1	1,485	0	0
Medical Technician III	1	2,967	0	0
Medical Technologist II	2	6,243	0	0

UTMB-CMC Division Market Adjustments and Annual Increases				
Job Title	Fiscal Year 2008		Fiscal Year 2009	
	Number of Market Adjustments	Amount Awarded	Number of Market Adjustments	Amount Awarded
Medical Technologist III	1	5,268	0	0
Medical Technologist IV	1	5,984	0	0
Manager, Patient Evacuation Command Center	1	2,700	0	0
Mid-Level Practitioner	3	25,667	0	0
Nurse Administrator	0	0	1	4,830
Nurse Clinician I Outpatient	1	8,781	8	22,153
Nurse Clinician II	1	4,781	0	0
Nurse Clinician II Outpatient	0	0	7	20,391
Nurse Clinician III	3	22,679	0	0
Nurse Clinician III Outpatient	1	9,964	200	746,276
Nurse Manager, Asst - Outpatient	0	0	30	126,275
Patient Care Assistant	1	1,487	0	0
Pharmacist, Senior	18	131,185	0	0
Pharmacy Clinical Practice Specialist	5	38,200	0	0
Pharmacy Supervisor	3	25,351	0	0
Physical Therapist III	4	25,000	0	0
Respiratory Therapist, Senior	4	15,640	0	0
Secretary, Senior	<u>1</u>	<u>1,260</u>	<u>0</u>	<u>0</u>
Totals	88	\$453,730	298	\$1,151,975
Non-teaching Employees				
Clinical Coordinator Dental Services Correctional Managed Care	2	\$ 18,935	2	\$ 25,942
Correctional Dentist	48	389,289	51	764,756
Facility Cluster Dentist	11	92,254	10	156,785
Optometrist	2	18,112	0	0
Optometrist, Senior	1	10,066	0	0
Physician I	11	147,473	0	0
Physician II	29	362,096	0	0
Physician III	16	247,350	0	0
Physician IV	2	26,800	0	0
Physician V	2	47,613	0	0
Psychiatrist I	5	64,219	0	0
Psychiatrist II	3	38,676	0	0
Psychiatrist III	3	39,900	0	0

UTMB-CMC Division Market Adjustments and Annual Increases				
Job Title	Fiscal Year 2008		Fiscal Year 2009	
	Number of Market Adjustments	Amount Awarded	Number of Market Adjustments	Amount Awarded
Psychiatrist IV	<u>1</u>	<u>14,240</u>	<u>0</u>	<u>0</u>
Totals	136	\$1,517,023	63	\$947,483
Totals for All Market Adjustments and Annual Increases	234	\$2,097,684	371	\$2,216,028

Source: UTMB-CMC Division.

UTMB Departments for Which a Portion of Costs Are Allocated to UTMB-CMC Division as a Shared Services Expenditure

Table 16 lists the 249 departments at the University of Texas Medical Branch at Galveston (UTMB) for which a portion of the costs are allocated to correctional managed care (UTMB-CMC Division) as a shared services expenditure. For some departments within the allocated areas (such as Pastoral Care, President's Office, Bearing Point, McGovern Academy, and Health Policy and Legislative Affairs), the contract with the Correctional Managed Health Care Committee pays a portion of the costs even though these departments do not provide health care to offenders.

Table 16

UTMB Departments for Which a Portion of the Costs Are Allocated to UTMB-CMC Division as a Shared Services Expenditure			
Department Name (as listed in UTMB's Records)		Department Name (as listed in UTMB's Records)	
Health Policy Legislative Affairs			
1	Government Relations	12	Community Health Promotions
2	Strategic Initiatives	13	Strategic Planning
3	3-Share Program	14	External Affairs
4	Sr VP Hlth Plcy & Legis Affair	15	Community Health Programs/Comm Based Mental Hlth Serv & Po
5	Hlth Policy & Legis Affairs Op	16	Knowledge Mgmt & Data Resource
6	Hlth Policy & Legis Affairs	17	Community Partnerships
7	Health Policy	18	Community Relations/Gov and Community Relations
8	Legislative Affairs	19	Office Of County Affairs
9	Division of Community Outreach	20	Facilities Plan - Outreach
10	Community Health Network	21	DAMP Office
11	Community Health Program		
Information Services			
1	Chief Financial Officer	34	IS-EMR-Operations
2	EHN Techs-Field Asset Mgt	35	IS-CMC-Technical Ops
3	EHN Distance Education	36	IS-InstSupport-ITII
4	Information Services	37	Computer Services
5	Student Information System	38	Healthcare Information System
6	IS Op Command Center	39	Finance MIS
7	IS Desktop/Enterprise Services	40	Performance Measurement
8	IS-Clinical Integration	41	Administrative Systems
9	IS Access Mgmt	42	Admin. Systems - User Support
10	IS-Administrative Services	43	Admin. Systems-Production Supp

**UTMB Departments for Which a Portion of the Costs Are Allocated to UTMB-CMC Division
as a Shared Services Expenditure**

Department Name (as listed in UTMB's Records)		Department Name (as listed in UTMB's Records)	
11	IS-AdminSyst-Gen	44	Admin. Systems - PS HCM
12	IS Network/Security	45	Admin. Systems - Hyperion
13	IS Video	46	Admin. Systems - Research
14	IS Customer Service	47	Finance Support
15	IS-Switchboard	48	Administrative Systems
16	IS Web Services	49	Admin Syst User Support
17	IS Leadership	50	User Support Change Ctrl
18	IS Voice Services	51	User Support Performance Msmt
19	IS Training	52	User Support Training
20	IS Clinical System Support	53	User Support Resolution Manage
21	IS Registration / Billing	54	User Support PSAsk
22	IS Clinical Projects	55	User Support Risk Mgmt
23	IS Operations	56	User Support Data Mart
24	IS Security	57	Admin Syst Upgrade
25	IS-PMO	58	Admin Syst PS HCM Implementati
26	IS-Enterprise	59	Admin Syst Research
27	IS-Admin/Finc Syst	60	Admin Syst Hyp Implementation
28	IS-OPS-Projects	61	Admin Syst Prod Support
29	IS-AdminSystems-Reporting	62	Admin Syst Legacy Support
30	IS-AdminSystems-PSFMS	63	Admin Syst FMS Support
31	IS-AdminSystems-HCM	64	Admin Syst DBA
32	HIS-Pc Lan Support	65	Admin Sys-Proj Mgt Off & Trng
33	IS-OPS-TechSrvs		
Finance			
1	Chief Financial Officer	21	SISTM EAST
2	General Accounting	22	Business Planning
3	Contract Administration	23	Finance Business Planning
4	Payroll	24	Contract Administration
5	Accounts Payable	25	Transactional Accounting
6	Property Plant & Equipment	26	Payroll
7	Finance	27	Finance - EAST Team
8	Budget	28	Acct. Payable
9	Treasury	29	Asset Management (AM)
10	Finance Initiatives Support	30	Budget
11	Entity Finance	31	Accounting
12	Payroll Services	32	Treasury

UTMB Departments for Which a Portion of the Costs Are Allocated to UTMB-CMC Division as a Shared Services Expenditure			
Department Name (as listed in UTMB's Records)		Department Name (as listed in UTMB's Records)	
13	Hosp & Clinics Acct & Rptg	33	Finance Reporting
14	Finance - Other Reporting	34	Planning & Performance Mgmt
15	Budget and Planning	35	Finance Intern Program
16	Contract Administration	36	Entity Finance
17	Inst. Support - BearingPoint	37	Finance Healthcare Systems
18	Payroll Liabilities	38	Institutional Finance
19	Core Finance	39	Payroll Liabilities
20	Finance		
Logistics			
1	Logistics	4	SW - TDCJ Recovery
2	Logistics Surplus Warehouse	5	Post-Ike Surplus Warehouse
3	Logistics Auction Warehouse		
Human Resources			
1	HR Work School Program	19	HR Employee Health & Wellness
2	HR Diversity & Intnt'l Affairs	20	HR Health Promotion
3	HR Human Resources	21	HR Employee Health
4	HR Corporate	22	HR Employee Injury Management
5	HR Corp Administration	23	HR Leave Management
6	HR Special Programs	24	HR Clinical
7	HR Solutions & Analytics	25	HR Employee Relations
8	HR Workforce Solutions & Analytics	26	HR Diversity
9	HR Recruitment	27	HR Institutional Programs
10	HR Recruitment Offices	28	HR Employee Health Services
11	HR Compensation	29	Benefits
12	HR Comp & Benefits	30	International Office
13	HR Org Effect Trg & Recog	31	Employee Records
14	HR Institutional Training	32	HR Benefits
15	HR Org Effectiveness	33 ^b	International Affairs Office
16	HR Institutional Recognition	34	HR Employee Records
17 ^a	HR OET&R Nursing Dev	35	HR Nurse Recruitment Students
18	HR Employee Assistance Program	36	HR Nurse Recruitment
Administration Allocation Areas			
Office of the President			
1	Strategic Research Collaborati	4	President's Office
2	Thomas N & Gleaves J Dist Chr	5	Office of the President

UTMB Departments for Which a Portion of the Costs Are Allocated to UTMB-CMC Division as a Shared Services Expenditure			
Department Name (as listed in UTMB's Records)		Department Name (as listed in UTMB's Records)	
3	Office of the President	6 ^b	McGovern Acad of Oslerian Med
Special Events			
1	President's Support Fund OUA		
Audit			
1	Audit Services		
Compliance			
1	Compliance MSRDP SOM	2	UTMB Compliance Program
Strategic Management			
1	Office of the Pres Operations		
Legal			
1	Legal Review WBP SOM	3 ^a	International Affairs Office
2	Department of Legal Affairs		
Pastoral Care			
1 ^b	BTA - Pastoral Care	7 ^b	Episcopal Health Funds
2 ^b	Council Of Religious Ministry	8 ^b	Gisela's Memorial Fund
3 ^b	Project Healing	9 ^b	Pastoral Care Gifts & Donation
4 ^b	Hospital Chaplaincy Program	10 ^b	Memorial Account-Ministry
5 ^b	Children and Worship	11 ^b	Pastoral Care-Hosp Chaplaincy
6 ^b	President's Cabinet Project He	12 ^b	Pastoral Care
Executive Vice President Business Finance			
1	Admin Expenses/Travel	4	Executive VP
2	Executive Vice President	5	Executive Vice President
3	Executive VP Operations		
General Administration Allocated			
1	Bearing Point	10	Institutional Administration
2	University Banking Expense	11	Institutional
3	Institutional Admin	12	Support Services
4	Executive Vp - Son/Dr. Fenton	13	Gift Shop
5	Bearing Point	14	Business Services
6	University Banking Expense	15	Assist VP-Planning/Mgmt System
7	Allocated Purchased Svc Rev	16	VP For Business Affairs
8	Institutional Admin Service	17	VP Business Affairs Admin
9	University Banking Expense	18	VP-Business Affairs & Admin

UTMB Departments for Which a Portion of the Costs Are Allocated to UTMB-CMC Division as a Shared Services Expenditure			
Department Name (as listed in UTMB's Records)		Department Name (as listed in UTMB's Records)	
Business Development Marketing			
1	OPM Marketing Contracts	2	Office of Planning & Marketing
McGovern Academy			
1 ^a	McGovern Acad of Oslerian Med		
Technology Management			
1 ^a	Technology Management		
Development			
1 ^a	OUA - Institutional Support	5 ^a	University Advancement
2 ^a	Development	6 ^a	VP for Univ Advance Operations
3 ^a	Alumni Relations	7 ^a	VP for University Advancement
4 ^a	Advancement Services	8 ^a	Development Communications
Public Affairs			
1 ^a	Public Affairs		
Health Policy and Legislative Affairs			
1 ^a	Government Relations	12 ^a	Community Health Promotions
2 ^a	Center Eliminate Health Dispar	13 ^a	Strategic Planning
3 ^a	3-Share Program	14 ^a	External Affairs
4 ^a	Sr VP Hlth Plcy & Legis Affair	15 ^a	Comm Based Mental Hlth Serv&Po
5 ^a	Hlth Policy & Legis Affairs Op	16 ^a	Knowledge Mgmt & Data Resource
6 ^a	Hlth Policy & Legis Affairs	17 ^a	Community Partnerships
7 ^a	Health Policy	18 ^a	Gov and Community Relations
8 ^a	Legislative Affairs	19 ^a	Office Of County Affairs
9 ^a	Division of Community Outreach	20 ^a	Facilities Plan - Outreach
10 ^a	Community Health Network	21 ^a	DAMP Office
11 ^a	Community Health Program		
^a A portion of costs was allocated in fiscal year 2010 but not in fiscal year 2009. ^b A portion of costs was allocated in fiscal year 2009 but not in fiscal year 2010.			

Source: UTMB.

UTMB-CMC Division Financial Report Cost Totals for Fiscal Years 2009 and 2010

Table 17 presents University of Texas Medical Branch at Galveston (UTMB) correctional managed care (UTMB-CMC Division) financial report cost totals for fiscal years 2009 and 2010 and the types of costs that are reported under each of the major categories.

Table 17

UTMB-CMC Division Financial Report Cost Totals Fiscal Years 2009 and 2010			
Type of Cost	Fiscal Year 2009	Fiscal Year 2010	Total
Salaries			
Salaries	\$168,364,610	\$174,140,215	\$342,504,825
Temporary Employment Agencies	9,110,657	4,710,100	13,820,757
Hazardous Duty Pay	513,172	456,131	969,303
Employee Referral Bonus	122,250	115,750	238,000
Orientation	155,837	80,176	236,013
Education and Education Pay	27,202	28,802	56,004
Certification	0	3,692	3,692
Salaries Totals	\$178,293,728	\$179,534,866	\$357,828,594
Benefits			
Benefits (Health, Vision, Life, Old-age, and Survivors Insurance)	\$39,296,136	\$41,232,547	\$80,528,683
Retiree Premium Sharing	4,262,782	4,578,692	8,841,474
Workers' Compensation	494,219	526,812	1,021,031
Unemployment	161,455	271,707	433,162
Employee Tuition and School Books	122,454	149,036	271,490
Mobile Devices	0	61,430	61,430
Moving and Relocation Expenses	1,053	0	1,053
Benefits Totals	\$44,338,099	\$46,820,224	\$91,158,323
Maintenance and Operations			
Pharmaceuticals	\$33,777,257	\$33,418,336	\$67,195,593
Maintenance and Operations	17,388,279	17,060,905	34,449,184
Contracted Information Technology Services	734,601	755,257	1,489,858
Funeral Cost and Autopsy	844,994	631,156	1,476,150
Rent/Lease - Office Space	426,422	1,031,638	1,458,060
Contracted Services (dental, vision, physician)	50,652	93,211	143,863
Maintenance and Repairs	481,954	629,530	1,111,484
Licensed Professional Services	0	977,877	977,877

**UTMB-CMC Division Financial Report Cost Totals
Fiscal Years 2009 and 2010**

Type of Cost	Fiscal Year 2009	Fiscal Year 2010	Total
Temporary Staff Services	799,225	0	799,225
State Purchased Meals	177,755	93,833	271,588
Maintenance Agreements - Computers and Others	110,202	118,809	229,011
Advertising	176,483	15,483	191,966
Conferences/Meetings/Registration Fees	98,266	83,689	181,955
Placement Fees	85,000	94,500	179,500
Employees Meals	172,308	1,700	174,008
Recruitment Expenses - Prospective Employees	20,029	8,268	28,297
Late Interest Charges	16,723	8,539	25,262
Parking Fees	6,500	3,880	10,380
Uniforms - Medical Staff	7,649	2,363	10,012
Educational/Training Service	0	4,845	4,845
Rental Aircraft	0	3,524	3,524
Maintenance and Operations Totals	\$55,374,299	\$55,037,343	\$110,411,642
Travel			
Mileage	\$1,127,479	\$885,277	\$2,012,756
Lodging	252,753	143,761	396,514
Meals	146,737	86,118	232,855
Transportation	52,304	35,383	87,687
Incidentals	27,504	22,088	49,592
Rental car	0	8,004	8,004
Travel Totals	\$1,606,777	\$1,180,631	\$2,787,408
UTMB Hospital Cost			
Hospital Services	\$49,515,935	\$ 79,409,658	\$128,925,593
Physician Services	12,000,743	17,941,376	29,942,119
State Paid Staff Benefits - Department of Criminal Justice Hospital	5,781,842	7,185,376	12,967,218
UTMB Hospital Cost Totals	\$67,298,520	\$104,536,410	\$171,834,930
Freeworld Services			
Freeworld	\$57,194,423	\$30,253,539	\$87,447,962
Medical Transportation	3,492,318	2,872,769	6,365,087
Freeworld Services Totals	\$60,686,741	\$33,126,308	\$93,813,049
IBNR			
IBNR - Incurred But Not Reported ^a	\$7,177,302	\$6,508,861	\$13,686,163
IBNR Totals	\$7,177,302	\$6,508,861	\$13,686,163

**UTMB-CMC Division Financial Report Cost Totals
Fiscal Years 2009 and 2010**

Type of Cost	Fiscal Year 2009	Fiscal Year 2010	Total
Indirect Costs/Shared Services			
Information Technology Services	\$5,000,035	\$3,649,383	\$ 8,649,418
Human Resources	1,120,412	1,990,807	3,111,219
Finance	1,583,487	858,576	2,442,063
Administration	-346,740	1,524,731	1,177,991
Community Outreach, Health Policy, and Legislative Affairs	507,476	0	507,476
Logistics	194,164	151,282	345,446
Indirect Costs/Shared Services Totals	\$8,058,834	\$8,174,779	\$16,233,613
Depreciation			
Depreciation	\$1,072,070	\$1,071,610	\$2,143,680
Depreciation Totals	\$1,072,070	\$1,071,610	\$2,143,680
Totals for All Cost Categories	\$423,906,370	\$435,991,032	\$859,897,402
^a This amount represents a cost estimate for services received but not billed as of the end of the fiscal year.			

Source: UTMB.

Management's Response from UTMB



David L. Callender, MD, MBA, FACS
President

301 University Blvd.
Galveston, Texas 77555-0129
O 409.772.1902 F 409.772.5064

January 26, 2011

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

Dear Ms. Ambres-Wade:

Thank you for the opportunity to review the Texas State Auditor's draft report for the audit of Correctional Managed Health Care at the University of Texas Medical Branch at Galveston, received January 4, 2010.

My executive and financial leadership teams have carefully and thoughtfully reviewed the draft report in its entirety. Please accept, in the attached document, UTMB's response to the recommendations and assertions contained within your report. UTMB believes it is in conformance with generally accepted accounting principles and health care industry practice and would support confirmation of this belief by an independent public accounting firm.

Should you have any additional questions, please feel free to contact William R. Elger, Executive Vice President, Chief Business and Financial Officer or Kimberly Hagara, Associate Vice President, Audit Services.

Respectfully yours,

A handwritten signature in black ink that reads "David L. Callender".

David L. Callender, MD, MBA, FACS
President

Chapter 1-A

Transparency of Reimbursement Rates

The State Auditor implies the establishment of UTMB's Correctional Managed Care reimbursement amounts lack transparency.

UTMB respectfully disagrees with the State Auditor's implication that there is a lack of transparency regarding reimbursement rates and that rates are arbitrarily set. UTMB further disagrees with the State Auditor's recommendation that various bodies should provide annual review, oversight and approval of its rates. UTMB submits these processes are already in place and the State Auditor's recommendation would result in unnecessary work and redundancy. The CMHCC approves the overall health care costs when it approves and signs the biannual contract with UTMB. Additionally, UTMB submits the LBB indirectly approves anticipated offender healthcare costs provided by UTMB through the legislative process. Although the HHSC does not review the CMC internal payment rates, it does establish UTMB's payment rates for Medicaid services using a cost-based methodology. CMC internal payment rates are also developed using a cost-based methodology.

Excessive Reimbursement Amounts

The State Auditor states UTMB's Correctional Managed Care reimbursement amounts exceed certain Medicare reimbursement amounts.

UTMB's internal payment rates for healthcare services provided to TDCJ offenders are reasonable and appropriate, compare favorably to benchmark payment rates and represent significant value to the state, citing the following examples:

- The State Auditor, in this report, incorrectly compared UTMB's inpatient payment rate to the standard Medicare rate typical of a community hospital. As discussed with the State Auditor, and consistent with recognition by the Centers for Medicare and Medicaid Studies (CMS) as well as the Texas Health and Human Services Commission (HHSC), UTMB is a complex, academic medical center and, as such, its standard rate includes additions to the "standard rate" for medical education. In 2010, TDCJ's inpatient rate was approximately 81% of UTMB's appropriately calculated standard Medicare rate and 74% of UTMB's inpatient Medicaid rate.
- For FY10, UTMB-CMC funding per offender per day increased by only 1.8% over FY09 funding; for FY11, however, funding has decreased by 0.9%. This decrease occurs during a period that, based on an independent actuarial study (Milliman), the cost for hospitalization and specialty care services was expected to rise 8.7% per year based on the demographics of the correctional population UTMB serves. This independent actuarial information was shared with the State Auditor during its audit.
- In the Houston region, physician managed care contract benchmark rates are 130-135% of Medicare rates. Additionally, due to the differences of the offender population to the free world market, Medicare rates are considered insufficient for physician services.

Physicians working in the correctional care environment are routinely and significantly affected by high no-show clinic rates, security, logistics and other considerations not experienced in the free world market, which increases costs.

- It should be noted, that by rider and statute, UTMB is not allowed to use UTMB-appropriated funds to support the cost of providing offender healthcare.
- UTMB establishes its internal payment rates based upon estimated costs to provide offender health care services and using industry-accepted cost accounting principles and methodologies and a state-of-the-art health care cost accounting system.
- UTMB believes it is in conformance with generally accepted accounting principles and health care industry practice and would support confirmation of this belief by an independent public accounting firm.
- Finally, Texas ranks among the very lowest in the country in health care costs for its offender population. Texas offender healthcare costs are \$9.67 per day compared to \$10.82 in Georgia, \$11.85 in Tennessee, \$15.75 in North Carolina and \$28.55 in California.

Chapter 1-B **Questionable Salary Increases**

The State Auditor states that UTMB approved \$14.1M in salary increases for FY08-FY10 for the UTMB-CMC Division while UTMB was reporting a deficit and recommends that UTMB should seek approval from LBB before implementing any salary adjustments.

UTMB respectfully disagrees with the State Auditor's recommendation that salary adjustments for the UTMB-CMC Division be approved by the LBB based on the following:

- UTMB's contract with the CMHCC is for the performance of healthcare services, regardless of vacancy levels and/or difficulties filling positions. Recognizing that agency nursing and/or locum service can add significant costs, UTMB strives to maintain salary market competitiveness. Market and merit increases awarded in FY08 and FY09 were implemented specifically to maintain market competitiveness and boost employee retention, with the support of the CMHCC.
- UTMB-CMC Division management kept the CMHCC well informed at their quarterly meetings of planned salary adjustments in response to remain market competitive, reduce vacancy levels and hiring of agency personnel, and other emerging workforce issues. Additionally, the CMHCC, by contract, must approve any new expense in excess of \$1M prior to implementation. Thus, market increase adjustments, cited in this State Auditor's audit, were specifically presented to the CMHCC for UTMB-CMC personnel.
- Since the UTMB-CMC Division may not offer sign-on bonuses, relocation allowances or hazard-duty pay, its primary recruitment and retention tool is competitive compensation and benefits; the CMHCC is well versed about these issues.

- The use of compensatory time, as suggested by the State Auditor, is not considered an attractive or effective employee incentive to work extra hours in a prison environment and, because of already tight staffing levels, would likely exacerbate staffing difficulties.
- Despite implications by the State Auditor, the TDCJ contract did not fund any portion of the UTMB TEAM awards.

**Chapter 1-C
 Indirect Costs**

The State Auditor alleges that UTMB may be charging the UTMB-CMC Division for a disproportionate amount of UTMB's indirect costs. Furthermore, the State Auditor recommends that UTMB should ensure that all indirect costs charged to UTMB-CMC Division are specifically related to offender health care, and that UTMB should obtain approval from the LBB before charging any indirect costs to UTMB-CMC Division. The State Auditor also suggests the Legislature may need to determine appropriate reimbursements and indirect cost allocations related to offender health care.

UTMB respectfully disagrees with the State Auditor's implication that UTMB may be charging a disproportionate share of indirect costs to its CMC Division and the recommendation that UTMB should seek approval from the Legislative Budget Board to charge indirect costs. Indirect costs are a normal part of any operating organization.

- Both the Centers for Medicare and Medicaid Studies (CMS) and the Texas Health and Human Services Commission (HHSC) recognize indirect costs as appropriate components of healthcare reimbursement rates.
- UTMB utilizes accepted cost accounting principles and methodologies for the allocation of indirect costs, consistently applies these methodologies between UTMB divisions and ensures divisions are not "double charged". The following table represents the distribution of indirect costs paid by each UTMB division, as well as the indirect cost paid as a percentage of total division expenses for FY 2010.

<u>UTMB Division</u>	% Charged of Total Indirect Costs	Indirect Cost Paid as a % of Total Expense Budget
CMC	7%	2%
Hospitals and Clinics	48%	11%
Academic Enterprises	44%	10%
Auxiliary Enterprises	1%	21%
	<u>100%</u>	

- The State Auditor appears to narrowly define the "cost directly related to providing health care to prison offenders," implying that only expenses such as nurses' salaries and medications be charged to the CMC contract. However, Human Resources, Payroll,

Purchasing, Legal, Logistics and many other operations are essential to the delivery of health care to the offender population, and thus would be viewed as "direct" costs if UTMB-CMC had the full required staffing for these business functions rather than leveraging UTMB resources.

- UTMB believes it is in conformance with generally accepted accounting principles and health care industry practice and would support confirmation of this belief by an independent public accounting firm.

Chapter 1-D

Prohibited Expenditures

The State Auditor alleges that UTMB-CMC Division charged more than \$6.6 million in prohibited expenditures; in addition, limited contract guidance prevented auditors from determining whether an additional \$17.9 million in expenditures was reasonable and necessary.

UTMB respectfully disagrees with the State Auditor's assessment of potentially prohibited expenditures and offers the following:

- The majority of the \$6.6M questioned by the State Auditor relates to employee benefits for retiree premiums and new hire premium sharing:
 - Retiree premiums are a normal business operating cost. Many of these retirees are employees who transferred to UTMB-CMC from TDCJ as a result of the legislation creating the offender managed health care system.
 - Providing premium sharing at the inception of employment is a recruitment incentive, consistent with healthcare market practices.
- UTMB also disagrees with the auditor's conclusion that \$1.476 million in offender funeral and autopsy expenditures are prohibited expenditures under the contract. Article III, F.4 in the contract clearly denotes this as a required state-wide service, therefore payable from contract funding.
- UTMB would also like to address the auditor's statement to overcharging the contract related to IBNR expense. The auditor references \$168,234 of remaining FY09 IBNR unspent as of FY11. Standard industry practice would have been to reverse the FY09 IBNR by the end of FY10, thus reducing expenses in the subsequent fiscal year. However, due to the extraordinary volume and dollar amounts paid to free world facilities as a result of hurricane IKE, UTMB-CMC chose to carry forward for an additional period a FY09 IBNR balance (amount calculated as .25% of the \$66 million in FY09 paid claims.) In the current fiscal year, as of December 31st UTMB-CMC has paid \$22 thousand in claims against this IBNR amount. Any remaining balances as of August 31, 2011 will be reversed.
- Additionally, the State Auditor report raises questions related to \$17.9 million, including indirect costs, of FY09 and FY10 expenditures not specifically prohibited by the contract,

but that may not be directly related to or necessary for delivering offender healthcare. UTMB contends the expenses cited are normal business operating expenses, such as:

- Employee referral bonuses encourage existing employees to refer qualified candidates for hard to fill positions. This practice is similar to one utilized by TDCJ.
- Education Pay, Certification, Employee Tuition and School Books offer additional education opportunities as a tool for recruiting and retaining employees.
- Mobile devices allow employees to conduct daily business matters efficiently.
- State Purchased Meals and Employee Meals were payments for offender meals in infirmaries established at UTHSC Tyler and/or Hospital Galveston when no other bed space is available in the units. It also includes TDCJ security meals while at the UTHSC Tyler facility.

UTMB-CMC will continue to strengthen controls over expenditures to ensure only allowable costs are charged to the contract. UTMB-CMC regularly provides full disclosure of all expenses to the CMHCC for review. CMHCC may (and does) request detail supporting information. UTMB-CMC agrees that expense classifications can be improved upon and has begun working with UTMB Accounts Payable and Purchasing to achieve that.

Chapter 2

Overestimated Cost Savings

The State Auditor submits that UTMB-CMC Division overestimated cost savings related to its FY2010 Reduction in Force by \$3.1M, and UTMB spent \$4.7M for temporary services to supplement its workforce. The State Auditor recommends that UTMB perform a cost-benefit analysis prior to a RIF to ensure that it considers all direct and indirect costs (such as unemployment charge backs and accrued vacation leave payouts) in the calculation of potential cost savings and that UTMB develop a contingency plan to identify gaps in staffing and the impact of employing temporary employment services.

UTMB respectfully disagrees with the State Auditor's overall conclusion regarding the FY2010 Reduction in Force and maintains it already has the recommended actions in place. UTMB offers the following information:

- UTMB's calculation of cost savings analysis was based on a target implementation date. The actual implementation date differed due to discussions with the CMHCC and TDCJ that resulted in modifications of the timeline and reduction-in-force impact.
- UTMB performs a cost-benefit analysis prior to considering any RIF and did so in FY2010. UTMB will continue to refine its process in calculating all direct and indirect costs and potential cost savings. The auditors indicate that approximately \$500,000 in vacation payouts were not considered in the saving calculation. While there was a cash outlay for paid vacation balances, these expenses did not result in an additional expense to the

contract. As earned, vacation accruals are appropriately recognized as an expense and accrued as a liability in the noted reporting period, in accordance with Generally Accepted Accounting Principles.

- UTMB changed its CMC nursing model, moving from a Registered Nurse intensive model to a licensed vocational nurse model, specifically to reduce contract costs. This change resulted in a net reduction of 26 licensed vocational nurses (LVN), 61 unlicensed nursing positions and 163 Registered Nurses (RN) based on the needs of the individual units and geographical locations. As a result, some units gained LVN positions while other units had reductions. For example, the Texas City unit reduced its LVN count by 15 while netting an increase of 17 unlicensed positions.
- UTMB – CMC Division acutely understands the premium cost of using agency nursing and locums and prudently uses contract labor, as needed, to ensure quality care and contract compliance.
- UTMB- CMC Division is continuing to look at the current staffing model to identify potential gaps that may require the use of temporary services and develop a plan that addresses needs in the most cost beneficial way.

Chapter 3

Organizational Structure

The State Auditor contends UTMB's organizational structure impairs independence and decision-making. Thus, the State Auditor recommends the CMHCC coordinate with LBB and UTMB to create transparency and independence regarding the reimbursement amount structure, salary adjustments, and allowable costs related to providing health care to offenders. Additionally, the State Auditor suggests that the Legislature may consider restructuring the CMHCC and/or UTMB-CMC Division to add transparency and independence to the decision making process related to offender health care.

UTMB respectfully disagrees with the State Auditor's criticism of its organizational structure as it relates to offender health care and offers the following:

- UTMB, not an individual division within UTMB, contracts with the CMHCC to provide offender healthcare services. The contract outlines services to be provided, defines certain outcome and performance measures, and specifies how services provided will be compensated and the consequences of non-performance. The CMHCC contract does not specify how UTMB, as a contractor, is to specifically provide those services, just that they are provided.
- UTMB is responsible for determining the most efficient and effective organizational structure for service delivery since it possesses the appropriate operational expertise, responsibility and risk for providing offender health care services.

- The memorandum of understanding (MOU) is an internal document used to outline internal pricing arrangements as a part of good business practices; it falls outside of the scope of the CMHCC contract.

Management's Response from the Correctional Managed Health Care Committee



CORRECTIONAL MANAGED HEALTH CARE COMMITTEE

1300 11th Street, Suite 415, Huntsville, Texas 77340
(936) 437-1972 ♦ Fax: (936) 437-1970

Allen R. Hightower
Executive Director

January 28, 2011

State Auditor's Office

RE: *Response to Correctional Managed Health Care*
Draft Audit Recommendation

We concur with the audit recommendation that the Executive Director of the Correctional Managed Health Care Committee should coordinate with the Legislative Budget Board and UTMB to create transparency and independence in the decision making process regarding reimbursement amount structure, salary adjustments and allowable costs related to providing health care to offenders, even if this would necessitate changes in the structure of the committee.

The beginning versions of HB1 and SB 1 of the 82nd Legislative *sunset* CMHCC. However, the CMHCC believes that continuation of public input is still very important and should continue. Monitoring of access to care and quality of care could remain separate from financial management. The CMHCC does provide a means for physicians to make medical decisions regarding access to care and quality of care.

The CMHCC very strongly believes that providing medically necessary care to the inmate population, with a majority of the committee licensed physicians, will not only insure that the policies for providing necessary medical care to the inmate population, but is critical in mitigating the states liability in future litigation.

Allen R. Hightower
Executive Director

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Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
07-017	An Audit Report on Correctional Managed Health Care Funding Requirements	March 2007
05-012	An Audit Report on Management of Correctional Managed Health Care Contracts	November 2004
05-028	A Follow-Up Audit Report on Managed Care Contract Administration at the Health and Human Services Commission	February 2005

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