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**State Auditor**

An Audit Report on

# **Correctional Managed Health Care Funding Requirements**

March 2007

Report No. 07-017



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## Overall Conclusion

The Correctional Managed Health Care Committee's projected deficit for fiscal year 2006—as reported by the University of Texas Medical Branch at Galveston (UT Medical Branch) and the Texas Tech University Health Sciences Center (Texas Tech Health Sciences Center)—did not accurately reflect correctional managed health care costs for fiscal year 2006.

The Correctional Managed Health Care Committee initially reported an \$8.3 million projected deficit for fiscal year 2006. It subsequently revised that projected deficit amount to \$2.8 million. Based on auditors' test of expenditures, the State Auditor's Office estimated that the fiscal year 2006 deficit was \$1,140,619. This estimated deficit was derived from:

- The UT Medical Branch's \$859,381 surplus.
- The Texas Tech Health Sciences Center's \$2 million deficit.

The difference between the reported deficit amount and the deficit amount that auditors calculated was attributable to adjustments auditors identified in UT Medical Branch expenditures in the following categories:

- Hospital direct expenditures.
- Capital expenditures.
- Expenditures for torts and other judgments.
- Moving and relocation expenditures.

### Background Information

In October 2006, the State Auditor's Office issued *An Audit Report on the Cost of the State's Correctional Managed Health Care* (State Auditor's Office Report No. 07-003), which focused on the university providers' methodologies surrounding the compilation of costs incurred in providing services under their contracts with the Correctional Managed Health Care Committee. The methodologies audited were for costs university providers reported they incurred from September 2004 through February 2006.

This follow up audit was conducted to verify the appropriateness, accuracy, and reasonableness of the financial transactions that supported the university providers' reported correctional managed health care deficit amounts for the 2006-2007 biennium.

The Department of Criminal Justice contracts with the Correctional Managed Health Care Committee to provide inmate health care for \$375.8 million.

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.

## **Key Points**

**The Correctional Managed Health Care Committee reduced its reported fiscal year 2006 deficit from a projection of \$8.3 million to a projection of \$2.8 million.**

The reduction was made because (1) the UT Medical Branch decreased its projected deficit amount for fiscal year 2006 from \$6.5 million<sup>1</sup> to \$793,788 and (2) the Texas Tech Health Sciences Center's projected deficit for fiscal year 2006 increased from \$1.8 million to \$2 million.

**The State Auditor's Office estimated the deficit for fiscal year 2006 was \$1,140,619.**

Since October 2006, the UT Medical Branch provided auditors revised fiscal year 2006 deficit calculations that ranged from a \$6.5 million deficit to a \$1.3 million surplus. Based on tests of financial transactions, auditors determined that the UT Medical Branch did not have a deficit in fiscal year 2006 for correctional managed health care and, instead, it had a surplus of \$859,381 (see Appendix 2 of this report for detailed calculations).

The State Auditor's Office verified that the Texas Tech Health Sciences Center's fiscal year \$2 million deficit calculation was supported by documentation.

When combined, the UT Medical Branch's \$859,381 surplus and the Texas Tech Health Sciences Center's \$2 million deficit result in an overall deficit of \$1,140,619 for correctional managed health care in fiscal year 2006.

**Both the UT Medical Branch and the Texas Tech Health Sciences Center project correctional managed health care deficits for fiscal year 2007.**

The UT Medical Branch has revised its projected deficit for fiscal year 2007 from \$17.5 million to \$12.5 million.

The Texas Tech Health Sciences Center has revised its projected deficit for fiscal year 2007 from \$6 million to \$5.75 million.

**The Correctional Managed Health Care Committee complied with two riders auditors reviewed.**

The Correctional Managed Health Care Committee correctly identified an available balance of \$1.3 million for fiscal year 2006 and returned those funds to the General Revenue Fund as required by Rider 69, page V-23, the General Appropriations Act (79th Legislature).

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<sup>1</sup> This projection was based on financial data from the first two quarters of fiscal year 2006.

The Correctional Managed Health Care Committee also has complied with the reporting requirements outlined in Rider 46, page V-20, the General Appropriations Act (79th Legislature).

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

The UT Medical Branch generally agrees with the recommendations; however, it disagrees with the adjustments made by the State Auditor's Office for \$311,220 in torts and other judgments and \$36,615 in moving and relocation expenditures.

The Texas Tech Health Sciences Center agrees with its recommendation.

The Correctional Managed Health Care Committee also provided responses to this report. Those responses are presented in Appendix 4.

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

**UT Medical Branch.** Auditors identified information technology weaknesses at the UT Medical Branch in the operations and security of certain financial systems. The UT Medical Branch was unable to provide documentation that could be tested to ensure the accuracy and completeness in the cost accounting system of approximately \$90 million in correctional managed health care expenditures processed from the financial accounting system. The UT Medical Branch's employees also share user accounts for some system components, which prevents the UT Medical Branch from identifying who accesses the systems.

The UT Medical Branch uses multiple systems to maintain correctional managed health care financial information, including a detailed financial system, a summary level financial reporting system, and a cost accounting system.

Auditors did not review the detailed transaction processing in the UT Medical Branch's financial system or its cost accounting system. However, we reviewed the inputs and outputs of the UT Medical Branch's financial reporting system.

**Texas Tech University and the Texas Tech Health Sciences Center.** Texas Tech has worked to correct many of the information technology issues the State Auditors Office previously identified, and it is implementing a new financial system that should address the other issues that have not yet been corrected. Texas Tech performed a complete review of the access for its purchasing section and revised access to eliminate issues related to segregation of duties.

The Texas Tech Health Sciences Center uses multiple systems to provide correctional managed health care financial information, including a financial system to process expenditure and revenue transactions and a reporting

database for users to extract correctional managed health care data. Auditors did not review the processing of transactions through the financial system.

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

The audit objectives were to examine the deficit for the 2006-2007 biennium that was reported and projected by the Correctional Managed Health Care Committee and to follow up on recommendations in prior State Auditor's Office reports.

The audit scope covered projected and actual deficit calculations for the 2006-2007 biennium.

The audit methodology included testing revenues and expenditures for allowability and accuracy; reviewing the reasonableness of the budgeting process; and reviewing and testing the available balances and unobligated funds reported by the Correctional Managed Health Care Committee.

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# Detailed Results

## Chapter 1

### ***The UT Medical Branch Reported Inaccurate Projected Deficits for Fiscal Year 2006, and Its Methodology to Calculate the Fiscal Year 2007 Deficit Could Not Be Verified***

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The University of Texas Medical Branch at Galveston (UT Medical Branch) reported an inaccurate projected deficit in correctional managed health care for fiscal year 2006. Auditors were unable to verify the UT Medical Branch's projected deficit for fiscal year 2007. The UT Medical Branch received \$299 million in payments from the Correctional Managed Health Care Committee for fiscal year 2006.

#### **Correctional Managed Health Care Services Provided by the UT Medical Branch**

The University of Texas Medical Branch at Galveston (UT Medical Branch) provides managed health care to offenders in more than 100 adult and juvenile correctional facilities throughout the state. Correctional Managed Care, a division of the UT Medical Branch's Office of Community Health Services, offered medical, dental, and mental health services to more than 119,000 patients, or 79 percent of the total inmates served during fiscal year 2006.

The UT Medical Branch's original projected deficit for fiscal year 2006 was \$6.5 million and its final reported deficit was \$793,788. Auditors tested several expenditure categories and identified a total of \$1.6 million in questioned costs, which represent 0.52 percent of total correctional managed health care expenditures. This results in a surplus of \$859,381 for fiscal year 2006. The UT Medical Branch estimated a 3.5 percent increase in total expenditures for fiscal year 2007, which resulted in an estimate reported as \$12.5 million deficit.

The UT Medical Branch's projected correctional managed health care deficit for fiscal year 2006 also included a \$4.6 million hospital cost that could not be verified because the UT Medical Branch did not provide documentation to support the accuracy of the allocation. In fiscal year 2006, for the first time the UT Medical Branch allocated a portion of the costs for hospital-related services provided by its School of Medicine to the UT Medical Branch hospitals.

Because of weaknesses in information technology at the UT Medical Branch, auditors were unable to determine whether correctional managed health care program revenues and expenditures in the UT Medical Branch's cost accounting system were accurate. See Chapter 1-C for more detailed information.

The UT Medical Branch accurately reports salaries for monthly and classified employees, but it should ensure that salaries paid from multiple sources can be verified.

## The UT Medical Branch's Reported Correctional Managed Health Care Deficit Did Not Accurately Reflect Its Costs for Fiscal Year 2006

The UT Medical Branch did not project its correctional managed health care deficit accurately for fiscal year 2006. Based on tests of the UT Medical Branch's financial transactions, auditors estimate that the UT Medical Branch had a surplus of \$859,381 for fiscal year 2006. The UT Medical Branch revised its deficit calculation three times. Although the UT Medical Branch reported to the Committee an initial projected deficit of \$6.5 million and a final actual deficit of \$793,788, it reported an additional deficit and surplus to the auditors during fieldwork (see Table 1).

Table 1

UT Medical Branch Revised Deficit/Surplus Projection for Fiscal Year 2006	
Date	Amount of Deficit or Surplus
September 1, 2006	Deficit of \$6.5 million
November 7, 2006	Surplus of \$1.3 million
November 14, 2006	Deficit of \$1.1 million
November 21, 2006	Deficit of \$793,788

Source: UT Medical Branch.

Auditors identified questionable costs in hospital expenditures, capital expenditures, legal judgments, and relocation expenditures. Auditors did not identify questionable costs in salaries or off-site expenditures. The questionable costs totaled \$1,653,168, which represented 0.52 percent of total correctional managed health care expenditures. Table 2 shows the estimated fiscal year 2006 \$859,381 surplus that auditors calculated.



Table 2

State Auditor's Office Recalculation of The UT Medical Branch's Correctional Managed Health Care Surplus for Fiscal Year 2006			
	Original Amount Estimated by the UT Medical Branch	Adjustment Identified by Auditors	Revised Amount After Adjustment
<b>Revenues</b>	\$ 329,932,950	\$ 0.00	\$ 329,932,950
<b>Expenditures</b>			
Salaries	\$166,558,198	\$0	\$166,558,198
Hospital costs - direct	47,653,103	1,066,497	46,586,606
Hospital costs - indirect	42,204,613	0	42,204,613
Pharmacy	23,939,704	0	23,939,704
Off-site expenditures	19,193,025	0	19,193,025
Support, Travel, and Allocated Services	16,955,775		16,955,775
Other expenditures and Adjustments	\$10,791,663	0	10,791,663
Capital expenditures	2,120,294	238,836	1,881,4573
Torts and judgments	1,273,748	311,220	962,528
Moving and relocation	36,615	36,615	0
Total Expenditures and Adjustments	\$330,726,738	\$ 1,653,168	\$ 329,073,569
<b>Revised deficit/surplus</b>	<b>-\$ 793,788</b>	<b>-\$1,653,168</b>	<b>\$ 859,381</b>

The following information provides additional details on the questioned costs auditors identified. Auditors also identified issues related to hospital indirect costs paid to the UT Medical Branch's School of Medicine, which are discussed in Chapter 1-B of this report.

#### Hospital Direct Expenditures

Auditors projected \$1,066,497 in unsupported patient services (2.24 percent of the \$47,653,103 in total direct hospital and physician costs). For these unsupported patient services, there was a lack of documentation in the patient file to support that the medical procedure was conducted.

Auditors tested 30 encounters or instances of patient visits (admittances) totaling \$877,204 to determine whether the hospital costs (1) related to services provided to Department of Criminal Justice inmates and (2) were supported by documentation. After reviewing lab system databases, patients' medical records, and the UT Medical Branch's hospital patient finance cost charge system, auditors verified that, with two exceptions, the services were provided to Department of Criminal Justice inmates.

The two exceptions auditors identified were encounters for which there was no sufficient supporting documentation in the patient medical records or the UT Medical Branch's hospital patient finance cost charge system. The unsupported costs for these two encounters totaled \$19,632, which was 2.24 percent of the total amount tested. Because these errors indicated that some patient costs were not supported, auditors projected \$1,066,497 in total questioned costs.<sup>2</sup>

#### Capital Expenditures

Auditors projected \$238,836 in unsupported capital expenditures (11.26 percent of the \$2,120,294 in total capital expenditures). Capital expenditures consist of direct purchases, as well as an allocation of the cost of shared capital items. The allocation percentage for the shared capital expenditures was accurate.

Auditors tested \$1,331,998 in capital expenditures associated with 44 capital items and identified errors for 8 expenditures totaling \$150,041. The errors consisted of:

- Five expenditures for which there was no supporting documentation.
- Two expenditures that were incorrectly allocated using the prior year base amounts.
- One expenditure for which the invoice amount did not match the allocation base amount.

Because these errors indicated that some capital expenditures were not supported, auditors projected \$238,836 in total questioned costs.

#### Torts and Other Judgments

The UT Medical Branch should not have included \$311,220 in costs for torts and other judgments (out of a total of \$1,273,748) in its fiscal year 2006 deficit calculation. The amount in error includes:

- Five cases that were either dismissed or settled for \$220,000 less than the accrued amount between September 2006 and January 2007.
- A total of \$91,220 that auditors estimated would not be paid from a total of \$340,000 in cases that were outstanding. There was not a trial or a settlement agreement for these cases as of January 2007. It is possible that none of the \$340,000 will be paid out, which could affect the deficit/surplus calculation.

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<sup>2</sup> All costs projected by auditors in this report are approximate costs. Actual amounts could be more or less than the projected amounts in this report.

## Moving and Relocation Expenditures

The UT Medical Branch inappropriately included \$36,615 in moving and relocation expenditures in its deficit calculation. The contract between the Correctional Managed Health Care Committee and the UT Medical Branch allows for the reimbursement of moving expenditures, including meals. However, according to the Office of the Comptroller of Public Accounts, the UT Medical Branch should not use state funds to reimburse local funds that were used to pay moving and relocation expenditures for new employees. Therefore, the deficit calculation should be reduced by the total moving and relocation expenditures. The State Auditor's Office previously reported this issue in *An Audit Report on Management of Correctional Managed Health Care Contracts* (State Auditor's Office Report No. 05-012, November 2004).

## Recommendations

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.
- Maintain documentation for the cost of all capital items and ensure it uses the proper base amounts to allocate those costs.
- 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, 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.
- 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.

## Management's Response

### *Direct Hospital Expenditures*

*UTMB agrees that sufficient documentation should be maintained in patient medical records which support medical services provided. The two exceptions identified by the auditors related to services provided by Radiation*

*Oncology and Outpatient Pharmacy. Detailed treatment records for Radiation Oncology are maintained in the Department of Radiation Oncology, rather than in Health Information Management. UTMB was not made aware that the auditors could not locate the Radiation Oncology records until after a draft of the audit report was prepared. The records were located in the Department of Radiation Oncology and UTMB Audit Services reviewed the documentation noting that it substantially supported the services provided during the two encounters. However, since the support was located after the last day identified for submission of information to the auditors, it was not reviewed by them to consider removal of the exceptions or adjustment of the projected error.*

*UTMB is committed to maintaining complete, accurate and secure medical records that are easily accessible to appropriate individuals. UTMB is in year 4 of a 5 year electronic medical record system implementation. The system will combine all patient health information into a single, electronic health record. This system is not only expected to improve documentation, but also improve patient quality and outcomes.*

#### *Capital Expenditures*

*UTMB concurs with the recommendation. We will work to ensure all transactional documentation is accurate for the reporting period, maintained and accessible.*

#### *Tort and Other Judgments*

*UTMB respectfully disagrees with the auditors' adjustment and rationale for using a cash accounting approach to this expenditure category.*

*UTMB prepares its financial statements on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) except where State Comptroller's reporting requirements have instructed us to deviate. Since these potential liabilities met FAS 5 criteria, in accordance with GAAP, they were appropriately accrued at year end using management's best estimates as to the amount of the potential liability related to the known filed lawsuits. Upon a case settlement or dismissal, appropriate adjustments are made to the recorded liability in subsequent periods. The liability is analyzed and reconciled on a monthly basis.*

*UTMB agrees that it can improve the transparency by either footnote or line item detail of any amounts recorded as a tort and judgment accrual. UTMB will work with the Correctional Managed Health Care Committee (CMHCC) on reporting format changes.*

*It should be noted that by disallowing the estimated \$311,220 in costs for torts, a like amount for the recorded reversal (credits) in FY07 will need to be*

*manually added back to the expenditure category totals at FY07 year end. Otherwise, the amount will have been excluded from both fiscal years.*

#### *Moving and Relocation Expenses*

*UTMB respectfully disagrees with the auditors' finding related to this expenditure category.*

*In the Audit Report, No. 05-012 dated November 2004, cited by the State Auditor, moving expenses were specifically mentioned as a questionable expense item. However, the response provided by the Correctional Managed Health Care Committee (CMHCC) clearly indicated they would be more deliberate in identifying allowable expenses and non-allowable expenses in the FY 06-07 CMHCC contracts between its two partner universities.*

*As a result, CMHCC modified the FY 06-07 contracts to more clearly articulate and address this issue. Since UTMB has the statutory authority (Texas Education Code Section 51.009) for these expenses, it was agreed in the UTMB/CMHCC master contract to allow for the payment of moving and relocation expenses for healthcare staff working within the TDCJ / UTMB contract. In addition to UTMB following the contract, it is also following the intent of the agreement to use contract allocations in a reasonable manner to work toward recruiting and retaining qualified healthcare professionals into the correctional health care system.*

*While these expenditures are a very small percentage of the total UTMB CMC budget; they are extremely important in the ability to recruit qualified medical professionals to relocate to rural prison settings. Paying a portion of a medical professional's moving expenses is an industry standard and a practice that significantly benefits the TDCJ patients we serve by remaining competitive for high demand professionals.*

*UTMB does not discount the Comptroller's guidelines in this matter, but would request that partnering Universities be allowed to continue the practice of reimbursing for moving expenses.*

*Additionally, UTMB will undertake a legal and administrative review of this issue to assure compliance with all applicable laws and regulations.*

#### Chapter 1-B

### **The UT Medical Branch's Projected Correctional Managed Health Care Deficit Included a \$4.6 Million Hospital Cost That Could Not Be Verified**

In fiscal year 2006, for the first time the UT Medical Branch allocated a portion of the costs for hospital-related services provided by its School of Medicine to the UT Medical Branch hospitals. Without this \$4.6 million cost

allocation, the UT Medical Branch would have reported a surplus for correctional managed health care in fiscal year 2006.

Auditors were unable to verify the accuracy of the \$4.6 million cost allocation because the UT Medical Branch did not provide sufficient documentation to support its accuracy. UT Medical Branch management asserts that the documentation is not readily available because these School of Medicine costs are allocated at the medical procedure level for each patient through its cost accounting system.

Auditors conducted tests of the \$4.6 million amount to determine whether the percentage of School of Medicine costs allocated to correctional managed health care aligns with percentages of other allocations. Auditors determined that the percentage of School of Medicine costs allocated to correctional managed health care (9.54 percent) is consistent with:

- Correctional managed health care's percentage of total hospital costs reported by the UT Medical Branch.
- Correctional managed health care's percent of total patient days reported by the UT Medical Branch.

However, without detailed and extensive testing of the information system that allocates School of Medicine costs and access to test the documentation that supports the allocation, auditors cannot provide assurance that the costs (1) are valid charges that relate to and support correctional managed health care and (2) are accurate and supported.

The UT Medical Branch hired a consultant to identify opportunities for improvement in its financial operations. The scope of the consultant's review included the appropriateness of the costs the UT Medical Branch's hospital paid the School of Medicine. The consultant identified various opportunities for improvement in the budgeting structure and operations for the School of Medicine.

### **Recommendation**

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.

## Management's Response

*UTMB understands the need to have a more documented audit trail for the allocation of costs through the Eclipsys Sunrise Decision Support Manager™ computer system (Eclipsys), UTMB's healthcare cost accounting system. Eclipsys is a leading provider of healthcare cost accounting systems designed for larger, complex hospitals and medical centers.*

*Eclipsys is a robust and complex system; however, it is not designed to leave a paper audit trail. As a result, the auditors were not able to substantively test the \$4.6 million allocated to correctional managed healthcare patients for services provided by the School of Medicine to the UTMB hospital.*

*Although the \$4.6 million could not be substantively tested, UTMB believes the allocation of this cost is appropriate and reasonable. The amount allocated to correctional managed healthcare represents 9.5% of the \$48 million paid by the UTMB Hospital to the School of Medicine for services provided to the hospital such as medical directorships, departmental supervision, supervision of residents, etc. which contribute to patient care. Additionally, it appears reasonable when compared to other metrics such as correctional managed healthcare patient days as a % of total patient days (15.7%), correctional managed healthcare inpatients as a % of total inpatients (11.1%), etc. It should also be noted that UTMB provided other documentation including time studies and Medicare/Medicaid cost report schedules to support the services provided to the UTMB Hospital by the School of Medicine.*

*During the course of preparing our management responses, UTMB generated a cost report for Correctional Managed Healthcare, using the same methodology as the Medicare/Medicaid Cost report including medical resident GME costs. This cost report calculated UTMB Hospital costs of \$76.3 million to Correctional Managed Healthcare as compared to \$76.1 million based on Eclipsys, including IBNR.*

Chapter 1-C

### **The UT Medical Branch Should Correct Weaknesses in Information Technology to Ensure that It Processes Revenues and Expenditures Accurately and Properly Protects Financial Information**

Because of weaknesses in information technology at the UT Medical Branch, auditors were unable to determine if the managed care expenditures reported by the cost accounting system are both complete and accurate. The information technology weaknesses auditors identified are discussed below.

The UT Medical Branch does not adequately research corrections in its financial accounting system that is necessary to ensure that revenues and expenditures are processed accurately.

The UT Medical Branch makes corrections in its financial accounting system without researching the reasons for the errors. When a financial transaction does not pass the automated edit checks in the UT Medical Branch's financial accounting system, an adjusting entry is automatically prepared that corrects the transaction. While the process of correcting the errors is appropriate, the UT Medical Branch should research the reasons for the errors before correcting them. Although the correction does not change the total amount of the transaction, the result is that various UT Medical Branch departments could either be required to pay amounts they do not owe or receive amounts that were not due to them. In fiscal year 2006, the UT Medical Branch corrected 117,244 financial transactions using this process. Those transactions included:

- Correctional managed health care revenue and expenditure transactions totaling \$142,695.
- Other revenue and expenditure transactions totaling \$19,961,220.

Although the automatic correction process could have potentially misclassified approximately \$20 million in revenues and expenditures, auditors did not identify any actual misclassifications during audit testing.

The UT Medical Branch's hospital was unable to provide documentation showing that expenditures were accurately input into its cost accounting system in fiscal year 2006.

The UT Medical Branch uses more than one automated system to provide financial information to support its operations. Its hospital uses a cost accounting system to calculate the cost associated with serving clients. Auditors did not identify any issues regarding the process of extracting expenditure data on a monthly basis from the UT Medical Branch's financial accounting system into a separate financial reporting system.

Data in the financial reporting system is extracted on a monthly basis and inputted into the hospital's cost accounting system. However, the hospital does not conduct any review to ensure that correct amounts were input into its cost accounting system.

The hospital's procedures describe the calculation and comparison of record counts for the extract and import of the expenditure data into the cost accounting system; however, the hospital was unable to provide documentation indicating that it performs these procedures. Additionally, while record counts are beneficial in helping to ensure that data is complete, calculating total dollars helps to ensure the accuracy of the data. Record



counts can still balance when dollar amounts are inaccurate and out of balance.

In addition, if financial data is extracted from the UT Medical Branch's financial reporting system before the accounting period is closed, resulting reports may provide inaccurate information, depending on the time they were run and the amount of the unprocessed adjusting entries. According to the UT Medical Branch's procedure on data extraction, reports should be run after the month is closed to ensure all adjusting entries have been properly processed into the financial accounting system and over to the financial reporting system.

UT Medical Branch staff share administrative accounts that are used to manage various financial system resources.

Four to six UT Medical Branch staff share various administrative accounts for some of the financial accounting system resources. This practice violates the requirements in Title 1, Texas Administrative Code, Section 202.75, which states that "each user of information resources shall be assigned a unique identifier."

Sharing administrative accounts places resources at risk for unauthorized access and modification. This could lead to the processing of fraudulent payments without the ability to detect who is responsible or how the fraud occurred. Individuals also could use these accounts to establish other methods to access resources without detection.

The UT Medical Branch has not implemented password or account login parameters for various financial accounting system resources.

The UT Medical Branch has not implemented password and account login parameters that comply with Title 1, Texas Administrative Code, Section 202.75. Those requirements specify that "information resources systems which use passwords shall be based on industry best practices on password usage."

Passwords are the primary mechanism for preventing the compromise of access accounts used to authenticate and provide access to various resources. Weak password parameters increase the risk that hackers can gain access to authentication credentials and compromise automated systems. After resources are accessed, the hacker could potentially commit fraud and remove any audit trail.

The UT Medical Branch does not follow vendor guidance for configuring various financial accounting system resources.

The UT Medical Branch does not follow the configuration guidance from its vendors for various components of its financial accounting system. Following vendor guidance helps to ensure that resources operate as intended and in a

secure manner. The UT Medical Branch was working to address this issue at the time of this audit.

## Recommendations

The UT Medical Branch should:

- Properly research all financial transactions identified as having errors before it corrects those transactions in its financial accounting system.
- Ensure that all amounts extracted from its financial reporting system are accurately processed in its hospital's cost accounting system.
- 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.
- 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.
- Ensure that all users of administrative accounts have and use uniquely identifiable accounts to access both the server and database.
- Ensure that all users have access rights that are the minimum necessary to perform their job duties.
- Ensure that all generic administrative accounts are properly protected and used only when required.
- Ensure that all user accounts have password and account parameters that conform to industry best practices as required by the Texas Administrative Code.
- Ensure that it follows vendor security guidance when configuring and implementing automated systems.

## Management's Response

### *Researching of Automated Corrections*

*UTMB understands the auditor's recommendation for reviewing the automated corrections. The automated correction process results in the moving of balances to the appropriate chart field string when the originally entered chart field string does not match the PeopleSoft verification table. This automated correction process does not result in a change to the*

*PeopleSoft transaction, but to the department for which it is assigned. Due to the volume of transactions, it is not realistic to research every transaction; therefore, UTMB will continue its current corrections process to identify chart field string corrections and generate a correction file until the implementation of a combination edits process. UTMB is in the process of implementing a combination edits control that will result in the pre-editing of all transactions. It is expected that the chart field string combination pre-editing control will be in place by the end of FY 08.*

#### *Reconciliation of the Cost Accounting System Data*

*UTMB agrees to improve the reconciliation process related to the entering of financial transaction data into the cost accounting system. Currently, UTMB performs an annual reconciliation of the expenses extracted from the financial reporting system entered into the cost accounting system. This process will be modified to a monthly, year-to-date reconciliation with all supporting documentation maintained by the Finance, Decision Support, department for review as needed or requested.*

#### *Information Technology Security*

*UTMB agrees with the auditor's recommendations to improve information technology security. In March 2006, UTMB began the implementation of VAS (Vintela Authentication Services) software on all PeopleSoft UNIX database and file servers for log in authentication and tracking. The UNIX root user is disabled pursuant to IS Operations and system administrators use their unique user name and switch users for ROOT privileges as needed. All users of administrative accounts have and use uniquely identifiable accounts to access both the server and database although the Oracle accounts (psoft and oracle) will not be disabled until testing is completed (scheduled for completion by March 31, 2007). This project includes adding account parameters that will conform to industry best practices as required by the Texas Administrative Code.*

*The PeopleSoft data management team has reviewed current database and server parameters in light of the Oracle 9i Security Checklist and will make appropriate changes.*

#### Chapter 1-D

### **The UT Medical Branch Accurately Reports Salaries for Monthly and Classified Employees, But It Should Ensure That Salaries Paid from Multiple Sources Can Be Verified**

The salary transactions for UT Medical Branch monthly and classified employees that auditors tested were accurately reported, reasonable, and supported by documentation. Auditors tested 15 monthly payroll transactions

totaling \$136,553 (all payroll transactions totaled \$21,282,492). All transactions tested were supported by each employee's personnel record. Auditors also tested all transactions for 15 classified employees for specific pay periods (those transactions totaled \$17,770 out of all classified payroll transactions of \$101,785,992.). All of the transactions were supported by each employee's personnel record and timesheet.

Certain UT Medical Branch employees who work in the correctional managed health care programs also work for other programs (for example, they may work for Texas Youth Commission programs or Federal Bureau of Prisons programs). Those employees' salaries are paid by multiple funding sources in accordance with specific allocation percentages. For example, an employee may work at a Department of Criminal Justice facility four days a week and a Texas Youth Commission facility one day a week. In this case, 80 percent of the employee's salary should be paid by funding from the UT Medical Branch's contract with the Department of Criminal Justice and the other 20 percent should be paid by funding from the UT Medical Branch's contract with the Texas Youth Commission.

However, auditors could not determine whether the salary allocation percentages for these monthly employees reflect actual time worked for each program because those employees do not submit timesheets. The UT Medical Branch's internal auditor and the State Auditor's Office previously reported this issue (see *An Audit Report on the Cost of the State's Correctional Managed Health Care*, State Auditor's Office Report No. 07-003, October 2006).

### Recommendation

As the State Auditor's Office previously recommended, 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. The UT Medical Branch should then use this information to determine whether it should adjust the allocation percentages in its payroll system.

### Management's Response

*As indicated in UTMB's response to the prior State Auditor's Office Report No. 07-003, issued October 2006, UTMB agrees with this recommendation. While UTMB believes an acceptable system to track both classified and monthly employee hours worked has been established, we acknowledge that improvements can always be made. Toward the goal of addressing this issue, UTMB has purchased 105 electronic time clocks that will be installed in all TDCJ facilities and other ancillary locations, which support the UTMB Correctional Managed Care operation. These will interface with the*

*KRONOS time capture system now being utilized to record time and attendance data into payroll.*

*A pilot installation of the electronic time clocks is planned for the UTMB CMC Pharmacy operation in Huntsville, Texas. Upon completion of the pilot test, the clocks will be brought online throughout the entire UTMB CMC enterprise, ideally to be completed by mid-year 2008 due to the number of facilities involved.*

*UTMB would like to note that while the auditors mention the Federal Bureau of Prisons (FBOP) contract as a possible site where a dually funded UTMB employee might work on a periodic basis, it would be extremely unlikely. After 9/11, the Department of Homeland Security imposed very strict security criteria within all Federal complexes, including all Federal Prisons. As a result of these enhanced security regulations, it is not a practical option for UTMB to migrate UTMB employees from a CMC / TDCJ contract site to the FBOP contract site.*

Chapter 1-E

### **Auditors Could Not Determine the Reasonableness of the UT Medical Branch's Methodology for Projecting a \$12.5 Million Deficit in Fiscal Year 2007**

The UT Medical Branch has revised its projected correctional managed health care deficit for fiscal year 2007 from \$17.5 million to \$12.5 million. The increase in expenditures from fiscal year 2006 to the projected 2007 total was 3.5 percent. However, auditors could not determine the methodology of the revised deficit amount because it was not based on reasonable budgeting techniques, such as a trend analysis of historical data. For example:

- Expenditures for a portion of monthly salaries increased 14.12 percent from fiscal year 2005 to fiscal year 2006; however, the UT Medical Branch projected a 3 percent increase in this category of costs for fiscal year 2007.
- Expenditures for a portion of off-site care increased 18 percent from fiscal year 2005 to fiscal year 2006; however, the UT Medical Branch projected a 6 percent increase in this category of costs for fiscal year 2007.

UT Medical Branch management asserts that the fiscal year 2007 deficit projection was prepared based on its experience and knowledge of the UT Medical Branch's financial position and history. It is important to note that the UT Medical Branch's fiscal year 2007 budget deficit projection of \$12.5 million is significantly different from the State Auditor's Office calculation of an \$859,381 surplus for fiscal year 2006. Additional details regarding the

projected budget deficit for fiscal year 2007 and a comparison to the fiscal year 2006 surplus is presented in Table 7 of Appendix 3.

According to the UT Medical Branch, its projected fiscal year 2007 budget increases are related to an aging inmate population and the cost of providing care to Hepatitis C patients.

### Recommendation

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.

### Management's Response

*UTMB agrees to develop a more detailed budget methodology which includes documenting key assumptions and other consideration factors in contextual relationship to historical trends.*

*The FY07 projection of a \$12.5m shortfall represents an increase of 3.5% in expenditures over FY06, reasonable in today's overall health care inflation environment. As the year progresses, it is anticipated that the projection will change as actual expenses are known. For example, the original projected \$6.5 million deficit for FY06 was calculated based on six months of expenditure data. UTMB implemented an expense reduction program to reduce the projected FY06 loss, including reducing off site expenses, modifying the staffing model, and delaying pay increases. Many of these cost reduction programs are continued in FY07. However, since UTMB utilizes a staff model, where we employ all healthcare workers providing healthcare, it is expected that there will be fluctuations in salary and benefit expenditures as positions are filled or stay vacant. These fluctuations will impact the projection based on when it is calculated.*

*Additionally, over the past few years, financial reporting tools have been implemented to enhance our ability to trend and project our costs which allow CMC to report/budget to a significant level of detail as reflected in some of the examples above by the State Auditor's Office. While we will continue to enhance our ability to trend and project our costs with these tools, there are numerous, more complex variables than historical trends that have to be considered when projecting expenses. Variables that impact the costs of this program include gross population numbers, population mix of between male and female, age factors, intake/release volumes, the number of offenders going off site to local ER's, new drug therapies, etc. In addition, with the model we use to provide healthcare services there will be regular fluctuations in salary and benefit expenditures as positions are filled or stay vacant.*

*Throughout the year, UTMB monitors numerous data elements closely to keep costs in control.*

## ***The Texas Tech Health Sciences Center Had a \$2 Million Correctional Managed Health Care Deficit in Fiscal Year 2006***

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### **Correctional Managed Health Care Services Provided by the Health Sciences Center**

Texas Tech University Health Sciences Center (Health Sciences Center) provides inmate health care via three avenues: on-site clinical care, off-site hospital care, and on-site hospital care at the Regional Medical Facility in Lubbock, Texas.

The Health Sciences Center provides care directly, as well as indirectly, through contracts with local hospitals and providers. There are approximately 30 on-site, prison facility health clinics that provide basic health care services to inmates in West Texas prison facilities. Of the 30 sites, the Health Sciences Center fully funds 11 prison facilities, which means that it staffs all the physicians, physician assistants, nurses, administrative workers, and all other clinic employees at these 11 clinics

The Health Sciences Center also contracts with the University of Texas Medical Branch (Medical Branch) at Galveston for pharmacy services. During fiscal year 2006, the Health Sciences Center paid \$7.1 million (9 percent of its total expenditures) to the Medical Branch for pharmacy services.

The Texas Tech University Health Sciences Center (Texas Tech Health Sciences Center) had a \$2 million deficit in correctional managed health care in fiscal year 2006. That amount was \$200,000 more than the Texas Tech Health Sciences Center's original deficit projection. The Texas Tech Health Sciences Center contracts with the Correctional Managed Health Care Committee to provide health care to prisoners in its area (see text box for additional details).

In November 2006, the Texas Tech Health Sciences Center reported a \$2 million deficit for fiscal year 2006. The State Auditor's Office verified that the deficit calculation was supported by documentation. While the Texas Tech Health Sciences Center's actual revenue increased by 2 percent in fiscal year 2006, its actual expenditures increased by 4 percent, which led to the \$2 million deficit (see Table 3).



Table 3

Texas Tech Health Sciences Center Correctional Managed Health Care Deficits Fiscal Years 2006 and 2005			
Category	Fiscal Year 2006	Fiscal Year 2005	Percent Change
<b>Revenues</b>			
Capitation Payments	\$75,819,723	\$74,755,625	1.42%
State Benefits	5,269,683	5,087,517	3.58%
Other	<u>334,163</u>	<u>0</u>	--
<b>Total</b>	<b>\$81,423,569</b>	<b>\$79,843,142</b>	<b>1.98%</b>
<b>Expenditures</b>			
Salaries and Benefits	\$28,744,392	\$27,989,951	2.70%
Contracted Services	23,064,106	23,130,661	-0.29%
Free World Services	11,476,082	9,838,113	16.65%
Drug Costs	6,618,441	6,217,851	6.44%
Indirect Expenses	4,722,359	4,555,738	3.66%
Professional Services	4,662,815	4,347,911	7.24%
Operating	2,930,221	2,550,762	14.88%
Other Expenditures <sup>a</sup>	1,123,459	1,349,604	-16.76%
Travel	<u>125,675</u>	<u>102,468</u>	<u>22.65%</u>
<b>Total</b>	<b>\$83,467,550</b>	<b>\$80,083,059</b>	<b>4.23%</b>
<b>Deficit</b>			
	<b>\$2,041,981</b>	<b>\$239,917</b>	
<sup>a</sup> Other Expenditures include: Electronic Medicine, Estimated Incurred but Not Reported Expenditures, and Capital Equipment.			

Source: Reports submitted to the Correctional Managed Health Care Committee for fiscal year 2006.

Expenditure testing identified no errors. Auditors tested a sample of 32 Texas Tech Health Sciences Center correctional managed health care expenditures from 11 contracts. The expenditures tested totaled 4 percent (\$3.3 million) of the total expenditures (\$83.5 million). Sufficient documentation was available to support these expenditures. Auditors also tested total contract payments for seven contracts that accounted for 14 percent (\$11.9 million) of total expenditures and determined that the payments were made as outlined in the contract.

Auditors also compared the annual salaries for 30 Texas Tech Health Sciences Center employees to average state salaries for the same or similar positions. The salaries tested accounted for 2 percent of the \$83.5 million in total expenditures. No unreasonable salaries were identified through this analysis. Analysis of all expenses did not identify significant anomalies in the Texas Tech Health Sciences Center's \$83.5 million of expenses.

A deficit of \$5.75 million is projected for fiscal year 2007. The Texas Tech Health Sciences Center originally projected a \$6 million deficit for fiscal year 2007 but subsequently revised the deficit to \$5.75 million (see Table 4). The projected deficit is attributed to a nearly 5 percent increase in expenditures, with no change in revenues. According to the Texas Tech Health Sciences Center's projection, hospital bed expansion accounts for a \$1 million increase in projected expenditures.

Table 4

The Texas Tech Health Sciences Center Fiscal Year 2007 Projected Correctional Managed Health Care Deficit	
Category	Fiscal Year 2007 Projection
Revenues	\$ 81,270,828
Expenses	\$ 87,026,001
Deficit	\$ -5,755,173

Source: Texas Tech Health Sciences Center.

Texas Tech continues to improve its information technology. Texas Tech:

- Has implemented reports to extract the correctional managed health care revenue and expenditure data from its financial systems.
- Is progressing with the implementation of its new financial management system.
- Has either corrected or designed controls to address the issues from a prior State Auditor's Office report (*An Audit Report on Financial System Controls at Texas Tech University*, State Report No. 06-014, November 2005).

Texas Tech's primary financial management system is a legacy system that was implemented more than 20 years ago. Texas Tech University and the Texas Tech Health Sciences Center share this system. Texas Tech University and the Texas Tech Health Sciences Center plan to implement a new integrated financial management system between September 2008 and January 2009.

The State Auditor's Office reviewed access to and operation of the existing financial management system in 2005 and identified certain deficiencies that Texas Tech is working to correct. Specifically, Texas Tech is:

- Performing a review of access to its existing financial management system for the purchasing department and revising access to help provide for proper segregation of duties.

- Implementing a change control program to help track and account for the different application changes, releases, and improvements.
- Creating a reporting database that allows end users to more easily extract financial information.
- Implementing a control to prevent the reuse of document numbers during the fiscal year.

Texas Tech determined that certain issues were too costly or difficult to fix, particularly considering that the existing financial management system is scheduled to be replaced by fiscal year 2009. Those issues include:

- Reprogramming the application to prevent the corruption of expenditure budget transactions.
- Reprogramming the application to prevent Texas Tech University and the Texas Tech Health Sciences Center from entering transactions in the other's funding.
- Ensuring adequate audit trails are created that use the technology for direct changes of data in the tables.

### Recommendations

The Texas Tech University System should continue its efforts to replace its existing financial management system with a new system.

### Management's Response

*Texas Tech University Health Sciences Center (TTUSHC) agrees with the recommendation. Texas Tech has purchased from SunGard Higher Education the Banner administrative suite of software products which includes the student, finance, and human resources/payroll modules. A large cross sectional team of technical and functional staff have been assembled to implement the new financial management system. While complete implementation is a multi-stepped, multi-year project, go-live conversion to Banner is September 1, 2008 for finance, and January 1, 2009 for human resources/payroll.*

***The Correctional Managed Health Care Committee Reports Accurate Quarterly Data and Returned Funds to the General Revenue Fund as Required***

**General Appropriations Act  
(79th Legislature), page V-20,  
Rider 46 - Managed Health Care -  
Reporting Requirements**

The Correctional Managed Health Care Committee is required to submit to the Legislative Budget Board and Governor a report detailing:

- a. correctional managed health care actual and projected expenditures for on-site, off-site, and pharmaceutical costs;
- b. health care cost for inmates over age 55 including utilization data;
- c. other health care information determined by the Office of the Governor and the Legislative Budget Board; and
- d. all monies held in reserve during any quarterly reporting period by the Correctional Managed Health Care Committee or for Correctional Managed Health Care by the University of Texas Medical Branch at Galveston and the Texas Tech University Health Sciences Center.

Such reports shall be submitted on a quarterly basis.

**General Appropriations Act  
(79th Legislature), page V-23,  
Rider 69 - Correctional Managed Health  
Care: Limitation of Expenditure**

Of the funds appropriated above, the Correctional Managed Healthcare Committee shall not transfer any funds in excess of capitation rates established in contracts to the University of Texas Medical Branch or the Texas Tech University Health Sciences Center without prior approval of the Governor and the Legislative Budget Board. Any funds appropriated for Correctional Managed Healthcare remaining unexpended or unobligated on August 31 of each fiscal year shall lapse to the General Revenue Fund.

The Correctional Managed Health Care Committee provides accurate information on a quarterly basis in its reports to the Governor's Office and Legislative Budget Board as required by the General Appropriations Act (see text box for information on the requirement). It uses financial information from the university providers to prepare the reports it submits to the Legislative Budget Board and the Governor's Office. However, we noted issues with financial information from the UT Medical Branch (see Chapter 1).

The Correctional Managed Health Care Committee also accurately identified an unexpended balance of \$1,340,638 for fiscal year 2006 and returned it to the General Revenue Fund as required by the General Appropriations Act (see text box for information on the requirement). The Committee initially requested that this balance be applied toward reducing the projected funding shortfall at the university providers. The request was denied, and the funds were returned to the General Revenue Fund in accordance with the General Appropriations Act. Table 5 shows the composition of the \$1.3 million.

Table 5

Correctional Managed Health Care Committee Fiscal Year 2006 Available Balance Returned to General Revenue	
Item	Balance
Operating funds	\$ 79,113
Medical services	734,418
Mental health	527,107
<b>Total</b>	<b>\$1,340,638</b>

Source: Correctional Managed Health Care Report for the fourth quarter of 2006.

# Appendices

Appendix 1

## Objectives, Scope, and Methodology

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### Objectives

The objectives of this audit were to:

- Examine the deficit for the 2006-2007 biennium that was reported and projected by the Correctional Managed Health Care Committee. Specific sub-objectives were to:
  - ♦ Verify the amount of the reported deficit by determining whether there was adequate accounting documentation in the university providers' records to support the request for supplemental appropriations submitted to the Correctional Managed Health Care Committee for the 2006-2007 biennium.
  - ♦ Test (through sampling) correctional managed health care expenditures for fiscal year 2006 to verify that expenditures were accurately reported, appropriate, and supported.
  - ♦ Determine whether correctional managed health care revenues were (1) allocated to the university providers and (2) accurately reflected in the financial records.
  - ♦ Review the budgeting process the Correctional Managed Health Care Committee and the university providers used to allocate correctional managed health care revenues and expenditures.
- Follow up on the recommendations in State Auditor's Office Report No. 05-012 (November 2004), *An Audit Report on Management of Correctional Managed Health Care Contracts*.
- Follow up on selected recommendations in State Auditor's Office Report No. 07-003 (October 2006), *An Audit Report on the Cost of the State's Correctional Managed Healthcare*. Specific sub-objectives were to:
  - ♦ Determine whether the Correctional Managed Health Care Committee accurately reported its available balances to the Legislative Budget Board and the Governor as required by Rider 46, page V-20, General Appropriations Act (79th Legislature).
  - ♦ Determine whether the Correctional Managed Health Care Committee appropriately identified and returned all unobligated funds to the Department of Criminal Justice so these funds could be deposited into

the State Treasury in accordance with Rider 69, page V-23, General Appropriations Act (79th Legislature).

- Follow-up on selected recommendations in State Auditor's Office Report No. 06-014 (November 2005) *An Audit Report on Financial System Controls at Texas Tech University*. Specific sub-objectives were to:
  - ♦ Determine whether selected system security parameters were properly controlled.
  - ♦ Determine whether the applications used to report correctional managed health care financial information were providing accurate and complete information.

### Scope

The scope of this audit covered projected and actual deficit calculations for the 2006-2007 biennium.

### Methodology

The audit methodology included tests of revenues and expenditures for appropriateness and accuracy; reviewing the reasonableness of the budgeting process, and reviewing and testing the available balances and unobligated funds reported by the Correctional Managed Health Care Committee.

Information collected and reviewed included the following:

- Revenue received by the Texas Tech University Health Sciences Center (Texas Tech Health Sciences Center) and the University of Texas Medical Branch at Galveston (UT Medical Branch) from the Correctional Managed Health Care Committee.
- Texas Tech Health Sciences Center expenditures related to salaries and contracts.
- UT Medical Branch expenditures related to hospital costs, salaries, off-site contracts, torts and other judgments, moving and relocation, and capital expenditures.
- Budgeting documentation.
- Supporting documentation for the Correctional Managed Health Care Committee's available fund balance, including the request to retain the funds.
- Navigant Consulting Study, September 2006.

- Financial reports submitted from the university providers to the Correctional Managed Health Care Committee.
- Selected UT Medical Branch financial system security and configuration parameters.
- The UT Medical Branch's financial system chartfield edit procedures and results.
- The UT Medical Branch's summary reporting system load process and daily error logs.
- The UT Medical Branch's correctional managed health care summary reporting system's reporting process.
- The UT Medical Branch's summary reporting system extraction process and procedures for uploading/processing data into the cost accounting system.
- Selected Texas Tech Health Sciences Center financial system security access information related to issues found in State Auditor's Office Report No. 06-014 (November 2005) *An Audit Report on Financial System Controls at Texas Tech University*.
- Error identification and resolution for the Texas Tech Health Sciences Center financial system data loads to the reporting database.
- Report parameters used to extract and report correctional managed health care expenditure information.

Procedures and tests conducted at the Committee, UT Medical Branch, and Texas Tech Health Sciences Center included the following:

- Compliance with General Appropriations Act riders.
- Tests of expenditure data, including verification of invoices, purchase orders, reasonableness of expenditures in the deficit calculation, and appropriateness of amounts billed to correctional managed health care for fiscal year 2006.
- Verification of amounts paid by the Correctional Managed Health Care Committee that were received by the university providers.
- Calculation of the available fund balance and review of the return of the funds to the General Revenue Fund.
- Review of deficit revisions and calculations along with budgeting methodology for fiscal year 2007.

Specific procedures conducted at the UT Medical Branch:

- Review of selected security, logging, and configuration parameters for the financial system.
- Review of the error process used to identify chartfield errors in the financial system.
- Review of the error process used to identify problems with the uploading of data from the financial system to the reporting system.
- Review of the process used to extract data from the reporting system for uploading into the cost accounting system.
- Review of the process used to extract Correctional Managed Care expenditures from the cost accounting system.

Specific procedures conducted at the Texas Tech Health Sciences Center:

- Reviewed the corrective actions taken in response to a previous SAO audit.
- Reviewed the process to populate and extract data from the reporting system.

Criteria used included the following:

- Rider 46, page V-20, General Appropriations Act (79th Legislature).
- Rider 69, page V-23, General Appropriations Act (79th Legislature).
- Contract between Correctional Managed Health Care Committee and university providers.
- University provider policies and procedures.
- Comptroller of Public Accounts guidelines for moving and relocation expenses, *State of Texas Purchase and Procedures Guide*.
- Financial Accounting Standards Board Statement of Financial Accounting Standards No. 5, March 1975.
- Title 1, Texas Administrative Code, Chapter 202.
- Selected information technology vendor security guidance.



## Project Information

Audit fieldwork was conducted from November 2006 through January 2007. This audit was conducted in accordance with generally accepted government auditing standards.

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

- Courtney Ambres-Wade, CGAP (Project Manager)
- Ann Paul, CPA (Assistant Project Manager)
- Lauren Godfrey
- Jennifer Lehman, MBA, CGAP
- Angelica Martinez, CPA
- Anthony Patrick, MBA
- Michael Yokie, CISA
- Worth Ferguson, CPA (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CGAP (Audit Manager)

## *Recalculation of the UT Medical Branch's Correctional Managed Health Care Deficit for Fiscal Year 2006*

Table 6 shows the State Auditor's Office recalculation of the University of Texas Medical Branch at Galveston's (UT Medical Branch) correctional managed health care revenues and expenditures for fiscal year 2006.

Table 6

Recalculation of the UT Medical Branch's Correctional Managed Health Care Deficit Fiscal Year 2006					
Category	UT Medical Branch Budgeted Amount	UT Medical Branch Actual Amount	Percent Change Between UT Medical Branch Budgeted and Actual Amounts	Actual Amount Recalculated by State Auditor's Office	Percent Change Between Auditor Recalculated Amount and UT Medical Branch Actual Amount
<b>Revenue</b>					
Capitation Earned	\$298,796,921	\$299,282,896	0.16%	\$299,282,896	0.00%
State Paid Staff Benefits	29,540,621	30,102,160	1.90%	30,102,160	0.00%
Other Miscellaneous Revenue	<u>283,795</u>	<u>547,894</u>	<u>93.06%</u>	<u>547,894</u>	<u>0.00%</u>
<b>Total Revenue</b>	<b>\$328,621,337</b>	<b>\$329,932,950</b>	<b>0.40%</b>	<b>\$329,932,950</b>	<b>0.00%</b>
<b>Expenditures</b>					
Salaries and Benefits (excluding moving and relocation expenses)	\$169,865,362	\$166,558,198	-1.95%	\$166,558,198	0.00%
Moving and Relocation Expenses	34,385	36,615	6.48%	0.00 <sup>b</sup>	-100.00%
Pharmacy Costs	25,689,718	23,939,703 <sup>a</sup>	-6.81%	23,939,703	0.00%
Supplies	6,921,617	6,976,784	0.80%	6,976,784	0.00%
Services and Other	4,163,999	3,839,076	-7.80%	3,839,076	0.00%
Torts and Judgments	0	1,273,748	0	962,528 <sup>c</sup>	-24.43%
Offsite Costs	19,927,611	19,193,025	-3.69%	19,193,025	0.00%
Hospital Costs	89,672,295	89,857,716	0.21%	88,791,219 <sup>d</sup>	-1.19%
Support, Travel, and Allocated Services	17,326,006	16,955,775	-2.14%	16,955,775	0.00%
Depreciation Expense	<u>1,661,289</u>	<u>1,431,931</u>	<u>-13.81%</u>	<u>1,431,931</u>	<u>0.00%</u>
<b>Total Expenditures</b>	<b>\$335,262,282</b>	<b>\$330,062,571</b>	<b>-1.55%</b>	<b>\$328,648,239</b>	<b>-0.43%</b>
<b>Total Revenue less Expenditures</b>	<b>\$-6,640,945</b>	<b>\$-129,621</b>	<b>-98.05%</b>	<b>\$1,284,711</b>	<b>-1091.13%</b>
<b>Adjustments</b>					
Add State-Paid Benefits for Hospital	\$6,983,000	\$6,177,382	-11.54%	\$6,177,382	0.00%
Add Miscellaneous Revenue and Expenditures	191,090	30,028	-84.29%	30,028	0.00%
Add Depreciation Expense	1,157,281	1,431,931	23.73%	1,431,931	0.00%

**Recalculation of the UT Medical Branch's Correctional Managed Health Care Deficit  
Fiscal Year 2006**

Category	UT Medical Branch Budgeted Amount	UT Medical Branch Actual Amount	Percent Change Between UT Medical Branch Budgeted and Actual Amounts	Actual Amount Recalculated by State Auditor's Office	Percent Change Between Auditor Recalculated Amount and UT Medical Branch Actual Amount
Less Capital and Capital Allocation	2,400,000	2,120,294	-11.65%	1,881,457 <sup>e</sup>	-11.26%
Less Hospital Costs Paid to School of Medicine	5,796,414	6,183,214	6.67%	6,183,214	0.00%
<b>(Deficit)/Surplus for Fiscal Year 2006</b>	<b>-6,505,988</b>	<b>-793,788</b>	<b>-87.80%</b>	<b>859,381</b>	<b>-208.26%</b>

<sup>a</sup> The Pharmacy costs is net of expenditures and \$7.1 million in revenue received by the UT Medical Branch from the Texas Tech Health Sciences Center for the pharmacy related activities.

<sup>b</sup> The UT Medical Branch should not use state funds to reimburse local funds that were used to pay moving and relocation expenditures for new employees. See Chapter 1-A for further information.

<sup>c</sup> There was \$311,220 in torts and judgments that should not have been included in the deficit calculation. See Chapter 1-A for further information.

<sup>d</sup> Auditors projected \$1,066,497 in unsupported patient services. See Chapter 1-A for further information.

<sup>e</sup> Auditors projected \$238,836 in unsupported capital expenditures based on testing. See Chapter 1-A for further information.

Source: UT Medical Branch and State Auditor's Office audit work.

## ***Comparison of the UT Medical Branch's Fiscal Year 2006 Actual Revenues and Expenditures with Fiscal Year 2007 Budgeted Revenues and Expenditures***

Table 7 compares the University of Texas Medical Branch at Galveston's (UT Medical Branch) actual correctional managed health care revenues and expenditures for fiscal year 2006 as recalculated by auditors with its budgeted revenues and expenditures for fiscal year 2007.

Table 7

<b>The UT Medical Branch's Correctional Managed Health Care Actual Revenues and Expenditures for Fiscal Year 2006 Compared with Budgeted Revenues and Expenditures for Fiscal Year 2007</b>			
	<b>Actual Fiscal Year 2006 Amount Recalculated by State Auditor's Office</b>	<b>Amount UT Medical Branch Budgeted for Fiscal Year 2007</b>	<b>Percent Change</b>
<b>Revenue</b>			
Capitation Earned	\$299,282,896	\$299,395,083	0.04%
State Paid Staff Benefits	30,102,160	30,102,160	0.00%
Other Miscellaneous Revenue	<u>547,894</u>	<u>547,874</u>	<u>0.00%</u>
<b>Total Revenue</b>	<b>\$329,932,950</b>	<b>\$330,045,117</b>	<b>0.03%</b>
<b>Expenditures</b>			
Salaries and Benefits (excluding moving and relocation expenses)	\$166,558,198	\$173,724,289	4.30%
Moving and Relocation Expenses	0	0	0.00%
Pharmacy Costs	23,939,703	24,897,292	4.00%
Supplies	6,976,784	7,186,087	3.00%
Services and Other	3,839,076	3,954,249	3.00%
Torts and Judgments	962,528	1,311,960	36.30%
Offsite Costs	19,193,025	20,344,606	6.00%
Hospital Costs	88,791,219	93,452,290	5.25%
Support, Travel, and Allocated Services	16,955,775	14,982,072	-11.64%
Depreciation Expense	<u>1,431,931</u>	<u>1,514,512</u>	<u>5.77%</u>
<b>Total Expenditures</b>	<b>\$328,648,239</b>	<b>\$341,367,357</b>	<b>3.87%</b>
<b>Total Revenue less Expenditures</b>	<b>\$ 1,284,711</b>	<b>\$-11,322,240</b>	<b>-981.31%</b>
<b>Adjustments</b>			
Add State-Paid Benefits for Hospital	\$6,177,382	\$ 6,177,382	0.00%
Add Miscellaneous Revenue and Expenditures	30,028	0	-100.00%
Add Depreciation Expense	1,431,931	1,514,512	5.77%
Less Capital and Capital Allocation	1,881,457	2,400,000	27.56%
Less Hospital Costs Paid to School of Medicine	<u>6,183,214</u>	<u>6,424,080</u>	<u>3.90</u>
<b>Deficit/Surplus for Fiscal Year 2006</b>	<b>\$ 859,381</b>	<b>\$-12,454,426</b>	<b>-1,549.23%</b>

Source: UT Medical Branch and State Auditor's Office audit work.

## Response from the Correctional Managed Health Care Committee

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### CORRECTIONAL MANAGED HEALTH CARE COMMITTEE

1300 11<sup>th</sup> Street, Suite 415, Huntsville, Texas 77340  
(936) 437-1972 Fax: (936) 437-1970

*Allen R. Hightower*  
*Executive Director*

February 26, 2007

John Keel, CPA  
State Auditor  
Robert E. Johnson, Sr. Building  
P. O. Box 12067  
Austin, Texas 78711-2067

Dear Mr. Keel:

Thank you for the opportunity to review and respond to the State Auditor's Office report on "*Correctional Managed Health Care Funding Requirements.*"

We recognize that the audit report addresses three organizations, the University of Texas Medical Branch (Chapter 1), Texas Tech University Health Sciences Center (Chapter 2) and the Correctional Managed Health Care Committee (Chapter 3). It is our understanding that management responses have been requested from both medical schools addressing their respective recommendations.

In terms of the findings outlined in Chapter 3, the CMHCC agrees and no further action is required.

Additionally, in Chapter 1, on page 5, it is recommended that the Medical Branch work with the CMHCC to revise its contract to comply with guidelines from the Comptroller related to new employee moving expenses. The CMHCC agrees with this recommendation and will address this issue in its contracts for next biennium.

The CMHCC is committed to continuous efforts to improve the reliability of our financial reporting processes, recognizing that our reporting is dependent to a large degree on the accuracy of information provided by the university providers. We will continue to work with both UTMB and TTUHSC to refine and improve the processes for financial reporting and financial projections.

John Keel  
February 26, 2007  
Page Two

I want to close by expressing our appreciation for the manner in which your audit staff conducted this review. Throughout the process, the audit team headed by Nicole Guerrero and Courtney Ambres-Wade were professional, courteous, diligent and thorough.

Once again, thank you for the efforts of your office and audit team.

Sincerely,



Allen Hightower  
Executive Director, CMHCC

ARH:ads

Copy: James D. Griffin, M.D.  
Chairman, CMHCC

## Recent State Auditor's Office Work

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Recent SAO Work		
Number	Product Name	Release Date
07-003	An Audit Report on the Cost of the State's Correctional Managed Health Care	October 2006
06-014	An Audit Report on Financial System Controls at Texas Tech University	November 2005
05-012	An Audit Report on Management of Correctional Managed Health Care Contracts	November 2004

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Mr. Allen Hightower, Executive Director





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