



Legislative Requirement:

A Comprehensive Forensic Audit of Medical Services for Inmates Provided by The University of Texas Medical Branch at Galveston

- UTMB’s contracts provided minimal guidance on areas that significantly affect Program costs, such as employee compensation and off-site medical services.
- UTMB charged the Program a total of \$1.7 million in unallowable costs out of \$1.8 billion (less than 1 percent) in expenditures, including \$1.4 million for costs resulting from an unapproved policy initiative.

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State Auditor

The University of Texas Medical Branch (UTMB) contracted with the Texas Department of Criminal Justice (TDCJ) and the Texas Juvenile Justice Department (TJJD) to offer medical services to TDCJ inmates and TJJD youth through the Correctional Managed Health Care program (Program).

UTMB charged the Program \$1.8 billion during the audit scope of September 2021 through February 2024. Of that amount, \$1.7 million (0.1 percent) were for unallowable costs (see Figure 1 on the next page). The Program contracts included provisions explicitly prohibiting spending on relatively low-cost items such as flowers, food items, and gifts and awards. However, the contracts provided minimal guidance on areas that significantly affect Program costs, such as employee compensation (including contracted services) and off-site medical services.

UTMB’s contracts were structured such that all financial risk was assumed by TDCJ and TJJD, since the contracts explicitly required both TDCJ and TJJD to cover any deficit identified upon UTMB’s fiscal year end (see Figure 3 on page 6 for information on supplemental appropriations).

- [Background](#) | p. 4
- [Audit Objective](#) | p. 23

This audit was conducted in accordance with Rider 6, page X-7, General Appropriations Act (88th Legislature).

PRIORITY

PROGRAM CONTRACTS AND UNALLOWABLE COSTS

UTMB charged \$295,962 in unallowable costs primarily related to pharmacy salaries.

[Chapter 1 | p. 7](#)

PRIORITY

UTMB POLICY INITIATIVE

UTMB charged TDCJ \$1.4 million for additional costs resulting from an unapproved policy initiative.

[Chapter 2 | p. 15](#)

MEDIUM

PHARMACEUTICALS

Operational weaknesses related to pharmaceutical distribution may lead to unnecessary charges to the Program.

[Chapter 3 | p. 17](#)

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

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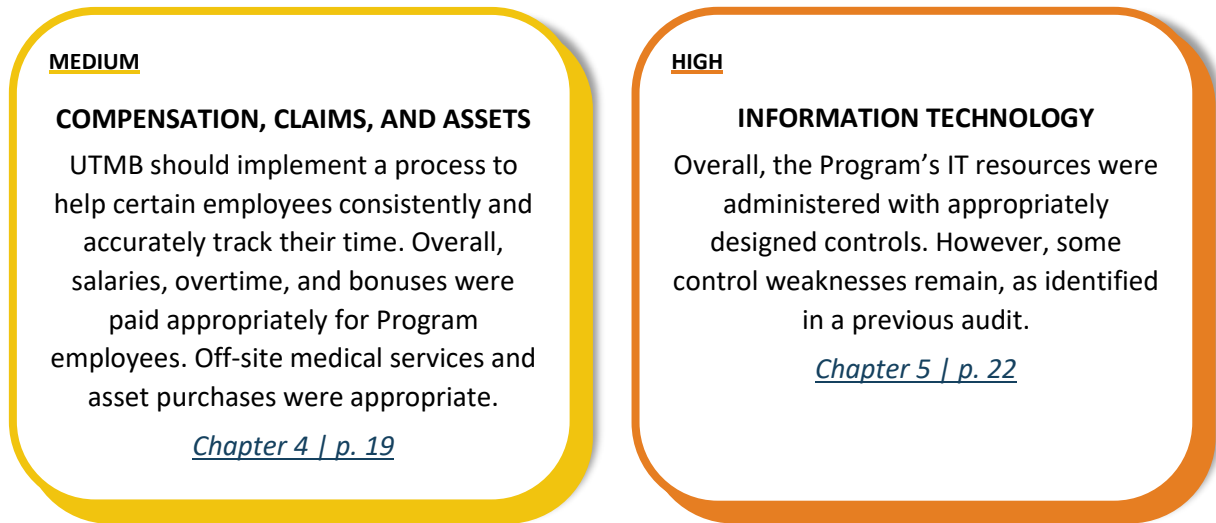


Figure 1 summarizes the unallowable costs.

Figure 1

Unallowable Costs Identified for September 2021 Through February 2024

Type	Amount
<u>Chapter 1:</u>	
Pharmacy Salary Calculation	275,167
Miscellaneous Expenditures	20,795
<u>Chapter 2</u>	
UTMB Policy Initiative	1,376,370
Total	\$1,672,332

Source: UTMB general ledger and SAO.

Summary of Management’s Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. UTMB agreed with all but two recommendations. Specifically, in Chapter 1, auditors recommend that UTMB should (1) recover the costs for Hospital Galveston employee health premiums only one time and (2) employ an indirect cost allocation methodology

that does not recover its costs through both medical claim billing and its allocation of total Program expenditures.

After review and consideration of the management response, the State Auditor's Office stands by its conclusions based on evidence provided during this audit. Details are included on [page 14](#).

Ratings Definitions

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

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

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

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

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

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

Background Information

Audit Requirement

The General Appropriations Act (88th Legislature) required the State Auditor’s Office to conduct a comprehensive forensic audit of all institutional functions, programs, and operations of medical services that The University of Texas Medical Branch at Galveston (UTMB) provides to inmates and youths in the custody of the Texas Department of Criminal Justice (TDCJ) and the Texas Juvenile Justice Department (TJJJ) under contract with the state.

To meet the legislative requirements, this audit was designed and conducted to identify unallowable expenses, which might take the form of medical service payments, pharmaceutical purchases, administrative compensation, salary transactions, and contracted services.

Organizational Overview of the Correctional Managed Health Care Program

Both TDCJ and TJJJ are responsible for ensuring inmate/youth access to health care as well as monitoring and overseeing costs to help manage and evaluate future service needs. UTMB has contractual agreements with both TDCJ and TJJJ to provide medical services to inmates and youth in custody through a Correctional Managed Health Care program (Program).

[Appendix 2](#) provides additional information about the Program’s services, facilities, and providers.

To carry out its contractual obligations, UTMB established a correctional managed care department (the UTMB-CMC Department) within its institution. As a result of this organizational structure, UTMB both (1) oversees the UTMB-CMC Department and (2) provides services to the UTMB-CMC Department as a contracted client.

Program Charges

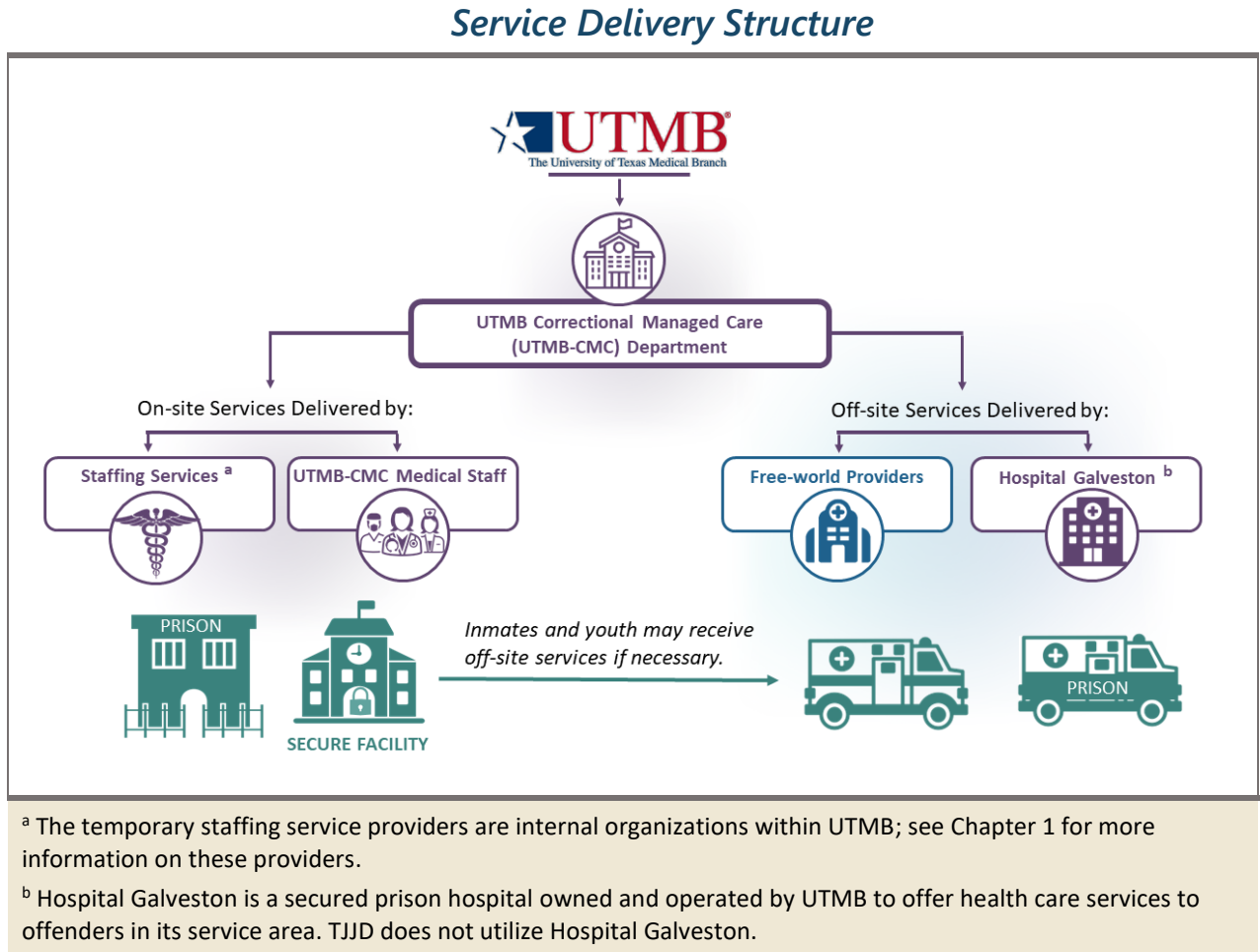
- From September 1, 2021, through August 31, 2024, Program expenses totaled \$2.2 billion.
- During the audit scope of September 1, 2021, through February 29, 2024, Program expenses totaled \$1.8 billion.

Source: UTMB

The UTMB-CMC Department has established its own administrative and support staff, including divisions such as finance, human resources, information technology, and temporary staffing services.

Figure 2 illustrates the relationships between the UTMB-CMC Department, TDCJ, TJJJ, and the local physicians and hospitals referred to as “free-world providers.”

Figure 2

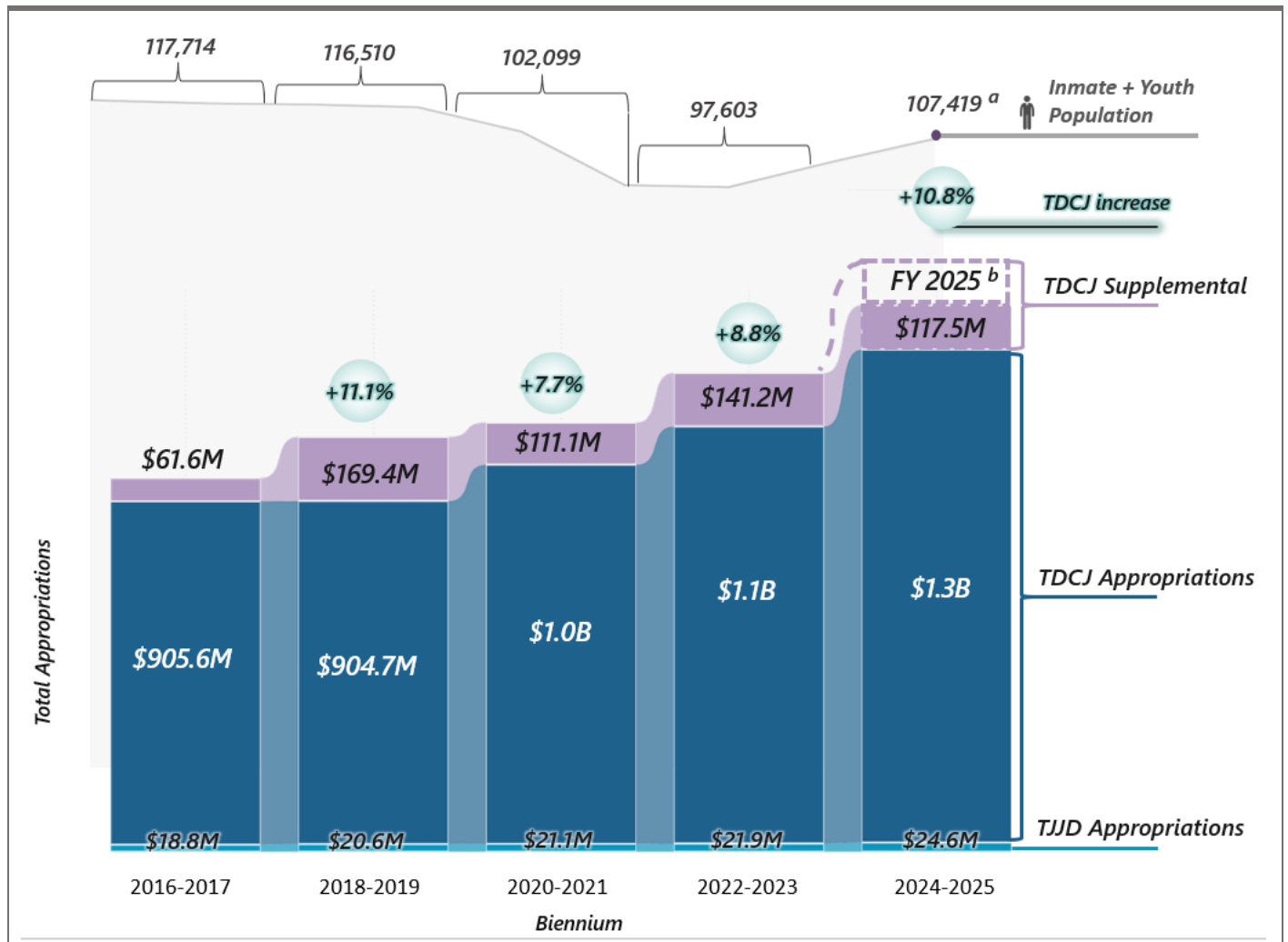


Source: Based on information from UTMB and prior SAO Audit.

Figure 3 on the next page provides Program appropriations since fiscal year 2017.

Figure 3

Program Appropriations



^a This population is for fiscal year 2024 only, rather than an average for the biennium, as shown for the other years.

^b The supplemental appropriation for the 2024-2025 biennium has not been determined. The \$117.5 million deficit shown is for fiscal year 2024.

Sources: Supplemental appropriation bills for fiscal years 2017 through 2023 (House Bill 2, 85th Legislature, Regular Session; Senate Bill 500, 86th Legislature, Regular Session; House Bill 2, 87th Legislature, Regular Session; Senate Bill 30, 88th Legislature, Regular Session); financial and contract information from UTMB, TJJJ, and the Uniform Statewide Accounting System. Inmate and youth populations provided by TDCJ and TJJJ.



PRIORITY

Chapter 1 Program Contracts and Unallowable Costs

The University of Texas Medical Branch (UTMB) provided medical services to Texas Department of Criminal Justice (TDCJ) inmates and Texas Juvenile Justice Department (TJJJ) youth through the Correctional Managed Health Care program (Program).

The structure of UTMB's Program contracts with TDCJ and TJJJ lacked essential elements to safeguard the State's interests. The contracts' design placed all financial risk on TDCJ and TJJJ and did not create any incentive for UTMB to control its major costs. In contrast, the contracts explicitly disallowed the use of Program funds for certain types of expenditures that have a minimal impact on Program costs. Additionally, the contracts allowed UTMB to recover the same costs using multiple methods.

UTMB charged \$295,962 in unallowable costs primarily related to pharmacy salaries.



UTMB recovered some costs twice.

UTMB recovered costs twice for two types of Hospital Galveston expenditures: (1) the premiums for current employee health insurance benefits and (2) the indirect costs for administrative support.

Hospital Galveston Health Premium Costs. UTMB can recover health premium costs twice: once through medical claims and once through funds appropriated for current employees' health premiums. The specific amount recovered through these methods is undetermined because UTMB's asserted they do not perform a full reconciliation. Specifically, UTMB used state funds appropriated for Program employees' health premiums to pay for health premiums for Hospital Galveston, which is staffed by non-Program employees.

While the General Appropriations Act¹ did allow UTMB to allocate the funds to Hospital Galveston, UTMB should not also charge the Program for those same costs through medical claim reimbursements.

Indirect Costs. UTMB recovered a portion of its institution-wide indirect costs twice: once through application of the contractual indirect cost rate of 2.75 percent and once through medical claim reimbursements. This issue was identified in prior State Auditor’s Office reports.²

Specifically, UTMB charged the Program \$14.7 million for indirect costs based on 2.75 percent of the total Hospital Galveston medical claims between September 2021 and February 2024. However, each of Hospital Galveston’s medical claims already included a portion of UTMB’s indirect costs.

This practice resulted in UTMB recovering some of its indirect costs twice.

Indirect Costs

The term “indirect costs” refers to expenses incurred by UTMB that are not directly attributable to a specific patient or medical service but are necessary to support the Program’s operations.

These costs are allocated to the Program for providing services such as administrative oversight, information technology support, and legal services.



UTMB allocated a disproportionate share of costs to the Program.

UTMB should periodically reevaluate its cost allocation methodologies for pharmacy personnel salaries and retiree health premium costs.

Pharmacy Salaries. Selected employees’ salary costs were allocated between UTMB and the Program based on savings achieved from participation in the 340B Drug Pricing Program³ (340B program). According to UTMB’s fiscal year 2016 calculation, the Program achieved an 80-percent savings; therefore, UTMB charged the Program for 80 percent of the pharmacy salaries. However, the Program savings diminished from 80 percent to 69.5 percent and

¹ Rider 7, page III-82, [General Appropriations Act](#) (87th Legislature, Regular Session).

² See *An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston and Texas Tech University Health Sciences Center* (SAO report [21-004](#), December 2020) and *An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston* (SAO report [11-017](#), February 2011).

³ The 340B Drug Discount Program is a federal government program that requires drug manufacturers to provide outpatient drugs to eligible health organizations at significantly reduced prices. See [Appendix 2](#) for details on UTMB’s participation in this program.

62.2 percent for fiscal years 2022 and 2023, respectively. Despite these decreases, UTMB continued to charge the Program 80 percent of those pharmacy salaries up through February 17, 2024. As a result, the Program was overcharged **\$275,167**.

Retiree Healthcare Premiums. UTMB charged the Program \$31.5 million for retirees' healthcare premiums between September 2021 and February 2024, but UTMB could not provide documentation showing that all the associated employees had worked on the Program. UTMB's contracts with TDCJ and TJJD required that Program funds be used only for Program costs.

UTMB allocates its institution-wide retiree healthcare premium costs based on each department's number of budgeted full-time equivalent employees (FTEs). Since the Program accounted for approximately 25.0 percent of all UTMB budgeted FTEs, UTMB allocated 25.0 percent of retirees' healthcare premium costs to the Program. However, because UTMB heavily relied on temporary employees to staff the Program, this methodology may have overcharged the Program. Specifically, only 17.3 percent (as opposed to 25.0 percent) of UTMB's entire retirees' healthcare premium costs between September 2021 and February 2024 were associated with employees who were assigned to the Program. Approximately 24 percent of UTMB retirement costs were for employees whose department was unknown, meaning that those employees' involvement with the Program could not be determined. Not associating retiree healthcare premium costs with verified Program employees increases the risk of overcharging the Program.

While there may be challenges in administering a complex system of compensation, an accurate allocation of costs to the Program is essential so TDCJ and TJJD pay only for their proportional shares of Program expenses.



UTMB's intra-agency staffing contract generated revenue that was no longer subject to contract restrictions.

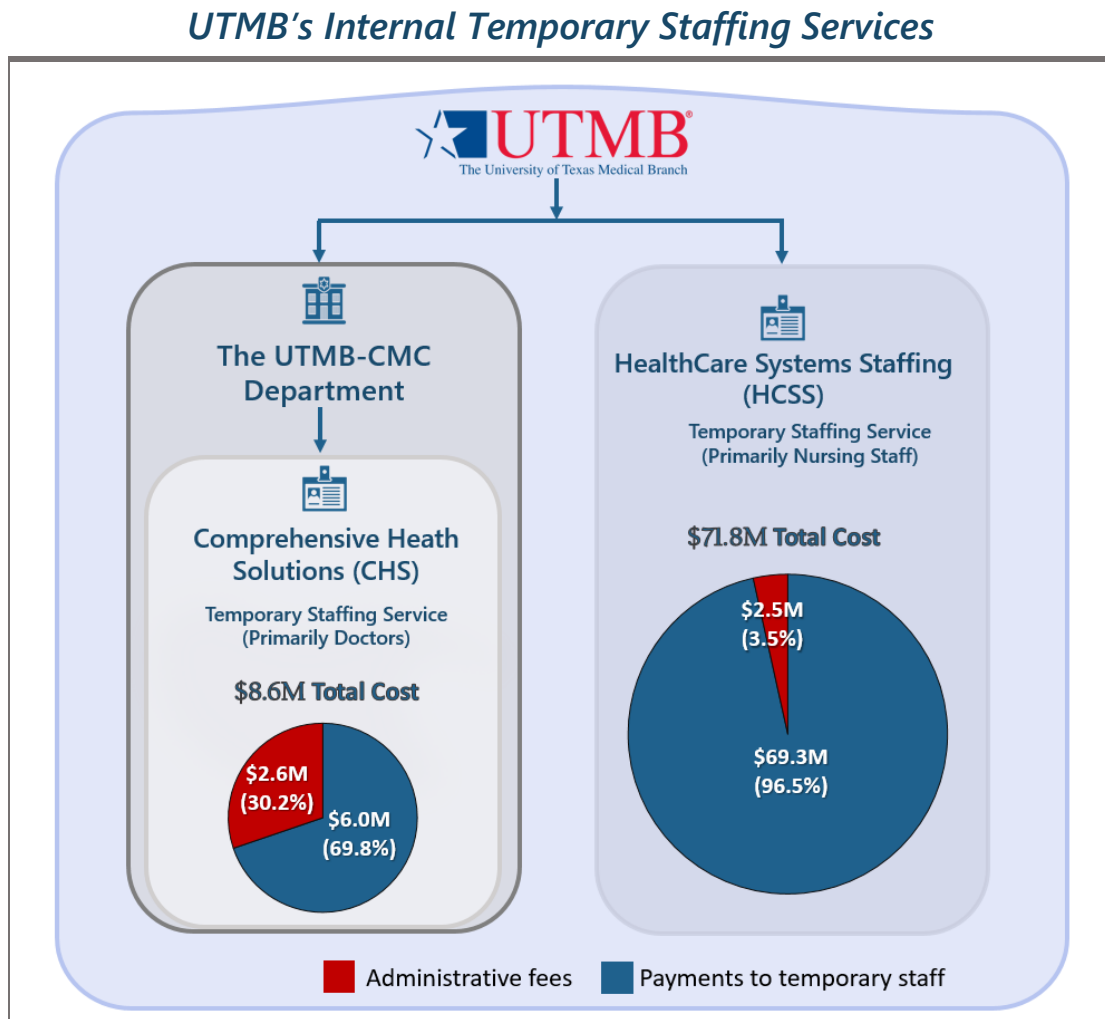
To supplement its Program workforce, UTMB contracted with temporary staffing services providers and paid a total of \$80.4 million for their services between September 2021 and February 2024. One of these providers, Comprehensive Health Solutions (CHS), is an organization within UTMB that provided temporary placement of physicians and other direct care providers. CHS is not independent from UTMB, as Program staff signed the contract as

both the vendor and customer, and some of the proceeds were spent on Program staff instead of on CHS staff. For example, the fees generated by CHS funded \$1.0 million for Program director bonuses and Program conferences, among other expenditures.

The other provider, HealthCare Systems Staffing (HCSS), is a non-profit organization established by UTMB that provides services to UTMB at large. HCSS primarily provided temporary placement of nursing staff.

The Program paid significantly more in administrative fees to CHS, as an internal service provider, than it paid to HCSS, as a separate non-profit. Specifically, of the total Program funds paid to CHS, 30.2 percent (\$2.6 million) related to administrative fees. In contrast, only 3.5 percent (\$2.5 million) of the total paid to HCSS was for administrative fees (see Figure 4).

Figure 4



Source: UTMB.

The contract between UTMB and CHS specified hourly rates but did not disclose the administrative fees included in those rates, which ranged from 3 up to 116 percent on top of the rates paid to physicians. ([Appendix 2](#) provides additional information about the rates and payments). As a result of this arrangement, the funds earned under this contract were no longer subject to contract restrictions. For example, UTMB spent \$112,793 of CHS funds on items such as birthday and employee retirement celebrations, prizes and awards, T-shirts, food items, business entertainment, and late fees, which would be unallowable without this arrangement in place. It is important that UTMB be transparent about the fees it charges so that those responsible for monitoring the Program can ensure that those fees are reasonable and align with Program goals.



The contracts prohibited these minimal costs.

UTMB charged the Program at least **\$20,795** in explicitly unallowable expenditures that included travel-related reimbursements, food purchases (gratuity and alcohol), and one instance of an overcharge. Specifically, UTMB charged the Program for:

- \$18,557 in unallowed mileage, lodging, and meal reimbursements.
- \$1,608 for unallowed food costs related to business entertainment.
- \$630 in overcharges for an autopsy that exceeded the contract limit.

The contracts required that Program funds received by UTMB be spent in accordance with requirements established by the Office of the Comptroller of Public Accounts.

Recommendations

UTMB should:

- Recover the costs for Hospital Galveston employee health premiums only one time.

- Employ an indirect cost allocation methodology that does not recover its costs through both medical claim billing and its allocation of total Program expenditures.
- Periodically reevaluate its cost allocation methodologies to prevent charging the Program for an inequitable share of salaries and benefits.
- Identify and define temporary staffing service fees and any other administrative fees in its contracts with TDCJ and TJJD.
- Ensure that Program expenditures comply with the requirements established by the contracts and the Office of the Comptroller of Public Accounts.

Management's Response

Recover the costs of Hospital Galveston employee health premium only one time

Management agrees that the costs for Hospital Galveston employee health premiums should only be recovered one time, and UTMB has done so, and is in compliance with the general appropriations act. For the audit scope period, Hospital Galveston employee health premium costs totaled \$29.5M of which \$17.1M was reimbursed by general revenue, resulting in a net unreimbursed cost to Hospital Galveston of \$12.4M. This unreimbursed net cost of Hospital Galveston was recovered through inpatient and outpatient medical claims billings in accordance with the general appropriations act.

Employ an indirect cost allocation methodology that does not recover its cost through both medical claim and billing its allocation of total Program expenditures

Management agrees that indirect costs should only be recovered one time, and UTMB has done so, and is in compliance with the general appropriations act. Indirect costs allocated to the Program are determined in the cost report, subject to a 2.75% cap, and in the cost report medical claims reimbursements to Hospital Galveston do not impact indirect cost calculations. Indirect costs allocated to the Program are capped at 2.75% of CMC annual reimbursements as

defined in the general appropriations act, and UTMB is in compliance with this provision.

Since implementation of the 2.75% indirect expense cap in FY2018, actual Program indirect expenses incurred by UTMB exceeded amounts billed to the Program by \$23 million.

Charging the program for an inequitable share of salaries and benefits

Management agrees with the recommendation. The Sr. Finance Director-CMC is responsible for implementing. We are dedicated to resolving the issue of inequitable salary and benefit allocations by implementing corrective actions that will promote fair and accurate cost distribution. We will enhance transparency and compliance to ensure that this is monitored and accurately reflected in the financials. This will be continuously monitor and refine our processes to prevent similar issues from occurring in the future.

Identify and define temporary staffing services and administrative fees

Management agrees with the recommendation. The Sr. Finance Director-CMC is responsible for implementing. We are dedicated to resolving the audit finding by accurately identifying and defining temporary staffing services and administrative fees in the CHS contractual documentation. Through the implementation of these corrective measures, we aim to enhance clarity and compliance. We will regularly monitor progress and make any required adjustments to ensure proper management of these costs moving forward.

Ensure that Program expenditures comply by the contracts and Office of Comptroller of Public Accounts

Management agrees with the recommendation. The Sr. Finance Director-CMC is responsible for implementing. We will comply with requirements established by the office of the comptroller of Public Accounts as it relates to the prohibited expenditures. As we are committed to ensuring full compliance with the terms of our contracts and the regulations established by the Office of the Comptroller of Public Accounts. We will continue to monitor the effectiveness of these actions and make the appropriate adjustments as necessary to maintain compliance.

Auditor Follow-up Comments

The conclusions and findings to this report were discussed with UTMB's management throughout the audit. In review of management's responses, the auditors offer the following clarifications.

- **Management response to the first recommendation** (*Recover the costs of Hospital Galveston employee health premium only one time.*)

During the audit, UTMB did not provide evidence to demonstrate that at least \$1.4 million in health premium costs were not recovered through both medical claims and general revenue funds. After review and consideration of management responses, the State Auditor's Office stands by its conclusions based on evidence provided during this audit.

- **Management response to the second recommendation** (*Employ an indirect cost allocation methodology that does not recover its costs through both medical claim billing and its allocation of total Program expenditures.*)

Despite repeated requests during the audit, UTMB did not provide evidence to demonstrate that its indirect costs were not included in the calculation of medical claims reimbursements to Hospital Galveston. Therefore, after review and consideration of management responses, the State Auditor's Office stands by its conclusions based on evidence provided during this audit.

PRIORITY

Chapter 2

UTMB Policy Initiative

From September 2021 through February 2024, UTMB charged the Program approximately **\$1.4 million** in provider reimbursements for extra interpretations or readings of test results, including \$965,324 (70.1 percent) for additional interpretations of COVID-19 test results.



UTMB charged TDCJ for additional costs resulting from an unapproved policy initiative.

The charges for the additional test interpretations were related to an institution-wide practice implemented in June 2020, in which additional interpretations or readings were performed for certain tests that were ordered using a specific billing code. However, UTMB did not officially document this new practice as a policy in accordance with its operating procedures.

According to the Program contract, UTMB was required to notify TDCJ of spending initiatives that represented a significant cost increase. Specifically, the Program contract required UTMB to provide TDCJ with at least 60 days' advance notice of any spending initiatives undertaken that were projected to represent a significant cost increase (defined as more than \$1 million) to the Program. TDCJ indicated that its expectation was that UTMB would notify it of any significant increases in Program expenditures, as required by the contract. However, UTMB asserted that this requirement applied only to Program-based changes that impact the cost of inmate care provided at TDJC prison units.

Note that while Medicare requirements do not apply to the Program, federal requirements provide a benchmark for establishing the eligibility of additional testing. Under the federal requirements for eligibility, the additional procedure (1) must be requested by the patient's attending physician, (2) must result in a written narrative report included in the patient's medical record, and (3) requires the exercise of medical judgment by the consultant physician. Those requirements allow a hospital's standing order policy to be used as a substitute for the individual request by a patient's attending physician.

Recommendation

UTMB should work with TDCJ to clarify contract provisions for spending initiatives that may have a significant financial impact on the Program.

Management's Response

Management agrees with the SAO recommendation that UTMB and TDCJ work together to clarify the application of the approval process for spending initiatives greater than \$1M.

Consistent with Joint Commission, UTMB has only one standard of care for all patients including inmates. Specifically, regarding CPT code G0452, UTMB changed its COVID-19 testing strategy, as the pandemic evolved, and did so consistently across all payers (commercial, Medicare, Medicaid, and CMC).

UTMB did seek approval from TDCJ at the onset of the pandemic and worked collaboratively with TDCJ to ensure that HG was the primary provider of inmate inpatient COVID care. Both TDCJ and the Correctional Managed Healthcare Committee (CMHCC) were aware and approved of HGs COVID care responsibilities.

Historically, neither TDCJ nor the CMHCC has ever exercised approval authority over Hospital Galveston (HG) or any hospital caring for TDCJ inmates, for changes in medical practice.

However, even if the rider was interpreted to have TDCJ or CMHCC review a hospital change in practice expected to be greater than \$1M, the incremental change in the HG COVID testing was nominal and it would not have been reasonably known to exceed the \$1M threshold requiring CMHCC or TDCJ review. In fact, through the dates of the audit the change in UTMB COVID testing payments have not exceeded the \$1M threshold.

MEDIUM

Chapter 3 Pharmaceuticals



UTMB should ensure that medications are not dispensed for inmates who are no longer in custody.

UTMB charged the Program \$107.5 million for prescription medications that were dispensed to units and facilities for TDCJ inmates and TJJD youth. In addition, the Program achieved cost savings through its participation in the federal 340B Drug Pricing Program (see [Appendix 2](#)). However, weaknesses remain in the medication delivery process.

UTMB established processes for dispensing medications to TDCJ units and TJJD facilities. However, the process can be improved to minimize unnecessary refills for discharged inmates.

From September 2021 through February 2024, UTMB dispensed 9.6 million prescriptions to inmates and youth in custody. During that time, UTMB dispensed medications to TDCJ units for 259 inmates who had already been discharged from TDCJ custody between 30 and 456 days earlier. According to UTMB, it has a process to return unused medications to its pharmacy so that they could be reclaimed or destroyed, as appropriate. UTMB reported that the Pharmacy did either reclaim or destroy these unused medications. However, the process weaknesses increase the risk of inappropriate drug diversion and unnecessary charges to the Program.

According to UTMB, the Pharmacy dispensed these medications due to (1) providers entering medications without verifying that inmates are still in custody, (2) TDCJ not always accurately communicating inmate discharge status to UTMB's pharmacy system, or (3) providers inadvertently including refills on prescriptions that should be limited to a 30-day supply.

Recommendation

UTMB should implement a process to monitor prescription orders and verify that inmates are still in custody.

Management’s Response

Management agrees with the recommendations. The AVP of CMC Pharmacy is responsible for the implementation.

More than 47,000 inmates are discharged from TDCJ on an annual basis. In addition, inmates may be incarcerated and released from custody multiple times. To assist with medication management and to reduce the need to make manual interventions, the pharmacy system has programming logic to ensure medications are not dispensed to inmates who are no longer in custody or dispensed more times than prescribed.

- The system auto-expires medication orders once all refills are exhausted.
- The system auto-discontinues medication orders when a patient is released from TDCJ and is no longer in custody. TDCJ provides the notice of release electronically. Once a discharge code is received from TDCJ, the system auto-discontinues medication orders.
- If an inmate is noted as discharged due to death in the electronic enrollment file, users are prohibited from ordering medications.
- The system has limits on the number of allowable refills based on the type of medication and users cannot order refills that exceed the number of allowable refills.
- The system has a process to reclaim unused medications for monetary credit or destruction.

However, there are opportunities for improvement as noted in the audit and the following changes will be made.

Change	Timeline for Completion
Data in the enrollment file received from TDCJ will be processed based on date rather than by order received, to ensure codes are not processed out of sequence and the most current information is used.	Completed
System will generate an email alert to designated pharmacy users when a medication is ordered for an inmate whose most recent record includes a discharge code. A pharmacist will then verify if the patient is in custody pending the receipt of a reception code or has been released from custody.	5/31/2025

MEDIUM

Chapter 4 Compensation, Claims, and Assets



UTMB has not implemented a methodology to track employee time according to funding source.

UTMB has not implemented a process to help certain UTMB and Program employees consistently and accurately track their time to allow for accurate salary splits (see text box for details). Without a process or methodology to determine a reasonable salary split percentage, the Program cannot assess whether it receives the services it pays for or arrive at accurate allocations. For instance, for the legislative affairs services staff member, the amount charged to the Program was increased from 25 percent to 33 percent of their salary from one fiscal year to the next, while the employee’s responsibilities remained unchanged. UTMB could not provide documentation to justify this increased cost to the Program.

Salary Splits

Salary splits are used when funding for employee salaries is provided by multiple sources; the salary costs are allocated according to time spent. Some support employees are funded by both UTMB at large and by the Program, while funding for certain Program administrative staff is split between TDCJ and TJJD.

Source: UTMB.

UTMB’s contract with TDCJ required that UTMB maintain detailed payroll records for each employee, to allow for an accurate allocation of payroll costs between TDCJ and non-TDCJ contracts based on actual hours worked; the contract specified that payroll records needed to include the methods used to verify the accuracy of those allocations.



Salaries, overtime, and bonuses were paid appropriately.

UTMB reported \$738.0 million in Program salaries and benefits from September 2021 through February 2024, including overtime and bonuses. Of that amount, the Program charged \$714.3 million (96.8 percent) to TDCJ and \$23.7 million (3.2 percent) to TJJD.

Of the \$738.0 million in salaries and benefits, \$598.2 million (or 81.1 percent) went to employees who provide direct medical care at TDCJ and TJJD facilities

and \$139.8 million (18.9 percent) went to employees who provide administrative and other non-direct support services, such as Program leadership, finance, human resources, and information technology.

UTMB paid Program employees \$42.2 million in overtime. Most of the overtime funds—\$31.2 million (74.0 percent)—were paid to nurses. The 10 nurses that earned the most overtime were paid between \$164,868 and \$311,419 in overtime alone. All overtime amounts tested were correctly calculated and supported by timesheets.

UTMB awarded \$17.5 million in bonuses to Program employees. Of that amount, \$17.4 million was awarded as retention incentives to medical service staff, including 158 nurses who received retention incentive payments ranging from \$30,000 to \$39,640 each.



Claims for off-site medical services were allowable.

In addition to the medical care provided at TDCJ and TJJJ facilities, UTMB provided access to care at off-site providers, specifically free-world facilities (the local physicians and hospitals) and Hospital Galveston, which is a secure UTMB facility. Between September 2021 and February 2024, UTMB charged the Program \$695.2 million for off-site medical services. UTMB processed the off-site medical claims for allowable services.

UTMB had adequate procedures for processing off-site medical service claims. Specifically, all 253 claims tested (totaling \$7.7 million) were accurately billed, issued for allowable services, and provided to inmates and youth in custody. In addition, based on UTMB claim data, all 2.5 million claims (totaling \$695.2 million) were for allowable services. [Appendix 2](#) provides additional information about medical claims and reimbursements.



Asset purchases were appropriate.

Assets purchased with Program funds were used for Program activities. Transfers of assets to and from the Program and other non-Program locations were generally appropriate.

Recommendation

UTMB should formalize employee time tracking for Program duties to help ensure that cost is allocated equitably among parties involved.

Management's Response

Management agrees with the recommendation. The Sr. Finance Director-CMC is responsible for implementing. UTMB recognizes the importance of formalizing employee time tracking of programs duties to ensure that costs are allocated equitably. UTMB will implement an employee time tracking systems which will accurately reflect that employees are allocating the appropriate time and effort to the CMC program. UTMB is confident that formalizing employee time tracking will enhance transparency, improve cost allocation, and support better financial management of our programs.

HIGH

Chapter 5 Information Technology

The information technology (IT) resources that support the Program were jointly managed by dedicated Program IT administrators and the UTMB IT division. The Program employed the following systems during the audit scope: PeopleSoft enterprise financial management and human capital management systems; Epic electronic medical records system, used in UTMB hospitals; Pearl electronic medical records system, used in TDCJ and TJJJ facilities; Plexis medical claims application; and Pharmacy Replacement System application, used to provide inmate care.



Unresolved weaknesses created risk for some processes and data.

In general, UTMB and Program staff have appropriately designed and effectively implemented controls over the Program's IT resources. However, while UTMB reported that all prior audit recommendations made in a December 2020 confidential report were implemented, some control weaknesses identified in that audit have not been fully addressed. As a result, certain systems remain at risk.

Recommendation

UTMB should fully implement the recommendations provided in the December 2020 confidential report.

Management's Response

Management agrees, that UTMB will strengthen access controls. The AVP Deputy CIO of Tech Services will be responsible for implementing this corrective action by October 2025.



Appendix I

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether The University of Texas Medical Branch at Galveston (UTMB) has unallowable expenses related to medical services provided to inmates in the custody of the Texas Department of Criminal Justice (TDCJ) and the Texas Juvenile Justice Department (TJJD), including medical service payments, pharmaceutical purchases, administrative compensation, salary transactions, and contracted services.

Scope

The scope of this audit included Correctional Managed Health Care program (Program) expenditures made from September 1, 2021, through February 29, 2024; assets listed on the final inventory lists for fiscal year 2015 through fiscal year 2023; and assets listed as of February 29, 2024.

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



- Krista L. Steele, MBA, CPA, CFE, CIA, CGAP (Project Manager)

- Ileana Barboza, MBA, CFE, CGAP (Assistant Project Manager)
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- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- Pamela A. Bradley, CPA, CFE
- Jennifer Brantley, MS, CPA
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The scope also included a review of significant internal control components related to claims for medical services, payroll, pharmaceutical purchases, and other expenditures.

Methodology

We conducted this performance audit from September 2023 through December 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with Government Auditing Standards were communicated to UTMB management for consideration.

Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed UTMB, TDCJ, and TJJD staff to gain an understanding of expenditures related to medical services provided to TDCJ inmates and TJJD youth.
- Identified the relevant criteria:
 - General Appropriations Act (87th and 88th Legislatures).
 - Texas Government Code, Chapters 403, 501, 659, and 660.
 - Texas Administrative Code; Title 34, Chapter 5; Title 1 Chapter 202; and Title 37, Chapter 273.
 - Texas Education Code, Chapter 74.
 - Contracts between UTMB and TDCJ and between UTMB and TJJD.
 - Office of the Comptroller of Public Accounts, *Texttravel*.
 - U.S. General Services Administration, *Per diem rates*.
 - UTMB and University of Texas System policies and procedures.

- Department of Information Resources, *Security Control Standards Catalog*, Version 2.1, and the Texas Cybersecurity Framework.
- Guidance from the Centers for Medicare and Medicaid Services.
- Contracts between the Program and temporary service providers.
- Toured UTMB, TDCJ, and TJJD facilities.
- Performed data analysis and tested sample transactions. The following sections provide additional information on that work performed.

Data Analysis

Auditors performed data analysis to identify unallowed costs, unusual transactions, and characteristics. If anomalies were identified, additional items with similar characteristics were selected for review. During the audit, we performed data analysis on the following:

- **Claims for medical services, to:**
 - Determine whether there were any unallowed procedures or services for inpatient, outpatient, and physician encounters for both TDCJ inmates and TJJD youth.
 - Determine whether there were any duplicate payments for free-world inpatient, outpatient, and ambulance claims for both TDCJ inmates and TJJD youth.
 - Determine whether there were any incompatible procedures billed for or near the same date for inpatient, outpatient, and physician services for both TDCJ inmates and TJJD youth.
 - Identify frequently billed procedures from UTMB providers and free-world providers for TDCJ inmates for additional testing.
 - Identify groups of high-dollar-value transactions for additional testing.
 - Identify the highest paid UTMB physicians and compare their claim amounts to those of other physicians for similar services for TDCJ inmates.
- **Salaries and human resources data, to:**
 - Determine if overtime charges were supported.

- Determine whether merits and bonuses charged to the Program were for Program employees only.
- Determine whether salaries above a certain amount were properly approved.
- Determine whether the Program had executed service agreements in place with all required information, such as payment amount.
- Determine whether employee benefits allocations were appropriate.
- Identify non-Program employees that were paid salary and benefits from Program funds.
- **General ledger transactions, to:**
 - Determine whether there were any unallowed expenditures.
 - Determine whether there were any duplicate transactions.
 - Determine the reasonableness and allowability of select expenditure categories.
 - Determine whether there were any unusual transactions entered on weekends or holidays.
- **Pharmaceutical prescriptions dispensed, to:**
 - Determine whether any medications were dispensed to TDCJ facilities 30 days or more after the discharge or death of the inmate.
 - Determine whether the pharmacy exceeded refill limits for TDCJ inmates and TJJD youth.
 - Identify the prescribers who issued the highest cost prescriptions and wrote the most prescriptions overall and for controlled substances, for additional testing.
 - Identify the top 10 prescribers of non-formulary medications to perform additional testing.
- **Asset listings, to:**
 - Identify assets transferred between Program locations and non-Program locations.

- Identify assets that had closed TDCJ and TJJD facilities listed as their locations, to determine the most recent location of those assets.

Samples Tested

Auditors used a combination of sampling techniques to determine whether UTMB had any unallowed expenditures related to medical services provided to TDCJ inmates or TJJD youth during the audit scope of September 2021 through February 2024. The samples tested were not representative of the populations; therefore, it would not be appropriate to project the test results to the populations. Auditors tested the following samples:

- Claims for medical services, tested to determine whether the medical services from both UTMB and free-world providers were allowed and calculated correctly (see Figure 5).
 - Employee overtime, tested to determine whether those charges were supported and calculated correctly (see Figure 6).
 - Other expenditure transactions, tested to determine whether the expenditures were allowed, supported, and calculated correctly (see Figure 7).
- Pharmacy-related data (see Figure 8) that included:
 - Prescriptions dispensed to TDCJ inmates and TJJD youth, tested to determine whether the prescriptions were allowable and dispensed only to patients in custody.

Figure 5 on the next page provides details on the claims for medical services samples used. The samples were chosen primarily using random selection so that a cross section of services would be represented, and so that higher dollar claims would be tested.

Figure 5

Samples Selected – Claims for Medical Services

Description	Population	Sample Size	Methodology
Claims for medical services from UTMB providers (TDCJ)	2,260,679 \$522,900,428	145 \$7,378,706	Combination of sampling techniques ^a
Claims for medical services from free-world providers (TDCJ)	187,502 \$171,121,066	75 \$277,552	Combination of sampling techniques ^a
Claims for medical services from free-world providers (TJJD)	3,290 \$1,220,111	33 \$24,780	Combination of sampling techniques ^a

^a Auditors selected a nonstatistical sample of 150 claims from UTMB providers (Hospital Galveston) and free-world providers through random selection. Auditors selected a nonstatistical random sample of 103 high-dollar claims from UTMB providers and free-world providers based on data analysis.

Figure 6 provides details on the salary sample used. The sample was chosen using auditor judgment so that periods with a high number of overtime hours charged were selected. Auditors selected 10 employees who had a high number of overtime payments within 3 consecutive pay periods and tested the payments for all 3 pay periods.

Figure 6

Samples Selected – Salaries

Description	Population	Sample Size	Methodology
Employees receiving overtime payments	2,946 \$42,232,886	10 \$2,336	Combination of sampling techniques

Figure 7 on the next page provides details on the other expenditure samples used. The samples were chosen primarily using random selection so that higher-risk areas would be tested. Auditors selected nonstatistical samples of travel-related transactions and asset purchases. Based on initial testing results, auditors selected additional samples of travel-related transactions with specific characteristics.

Figure 7

Samples Selected – Other Expenditures

Description	Population	Sample Size	Methodology
Other expenditures (TDCJ) ^a	157,743 \$143,080,120	225 \$431,749	Combination of sampling techniques
Other expenditures (TJJD) ^a	13,006 \$2,289,852	5 \$9,002	Combination of sampling techniques

^a This expenditure category includes items such as indirect costs, medical supplies, capital expenditures, and information technology.

Figure 8 provides details on the pharmacy samples used. The samples were chosen primarily using random selection so that (1) a cross section of services would be represented and (2) higher dollar claims would be tested.

Figure 8

Samples Selected – Pharmacy

Description	Population	Sample Size	Methodology
Prescriptions dispensed (TDCJ) ^a	9,485,085 \$114,477,212	36 \$7,458	Combination of sampling techniques ^b
Prescriptions dispensed (TJJD) ^a	67,707 \$200,670	36 \$12,396	Combination of sampling techniques ^b

^a Counts for prescriptions dispensed include non-controlled substances, controlled substances, and other stock medications. However, the total dollar values include **only** non-controlled substances, as the prescription report used for sample selection did not include dollar values for controlled substances and other stock medications.

^b Auditors selected nonstatistical samples of prescriptions for controlled and non-controlled substances, as well as a nonstatistical sample of prescriptions for non-controlled substances that cost at least \$50.

Data Reliability and Completeness

Auditors determined that the following data sets from September 2021 through February 2024 were sufficiently reliable for the purposes of the audit:

- PeopleSoft Financial Management System general ledger and payroll data for TDCJ and TJJD.
- PeopleSoft Human Capital Management data for Program employees.
- Epic Electronic Health Record System claims data for UTMB providers.
- PLEXIS Healthcare Systems claims data for free-world providers.

- Pharmacy Replacement System/Pearl Electronic Health Record System dispensed prescription data.

To determine data reliability and completeness, auditors obtained Program data for TDCJ and TJJJ and (1) reviewed query parameters, (2) reconciled populations to TDCJ and TJJJ financial reports, as applicable, and (3) analyzed key fields for reasonableness and completeness.

Auditors also reviewed UTMB assets inventory reports as of August 31 for fiscal years 2015 through 2023, and from September 2023 through February 2024. Auditors determined that the accuracy and completeness of those records were of undetermined reliability for the purposes of this audit.

Report Ratings

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

Appendix 2

Trends and Supplemental Information

Providers, Facilities, and Services

Providers. The University of Texas Medical Branch (UTMB) is responsible for establishing a comprehensive network of providers to efficiently deliver health care services in the state’s eastern and southern regions⁴ for Texas Department of Criminal Justice (TDCJ) inmates and Texas Juvenile Justice Department (TJJJ) youth. To accomplish this, UTMB uses a combination of university medical staff, UTMB-CMC Department medical staff, and temporary staffing organizations, in addition to outsourcing to local physicians and hospitals (referred to as free-world providers).

Facilities. Program facilities include Hospital Galveston, a prison hospital housed on the UTMB campus that provides inmate inpatient and outpatient care. Medical, administrative, and support staff at Hospital Galveston are UTMB employees; TDCJ officers maintain security.

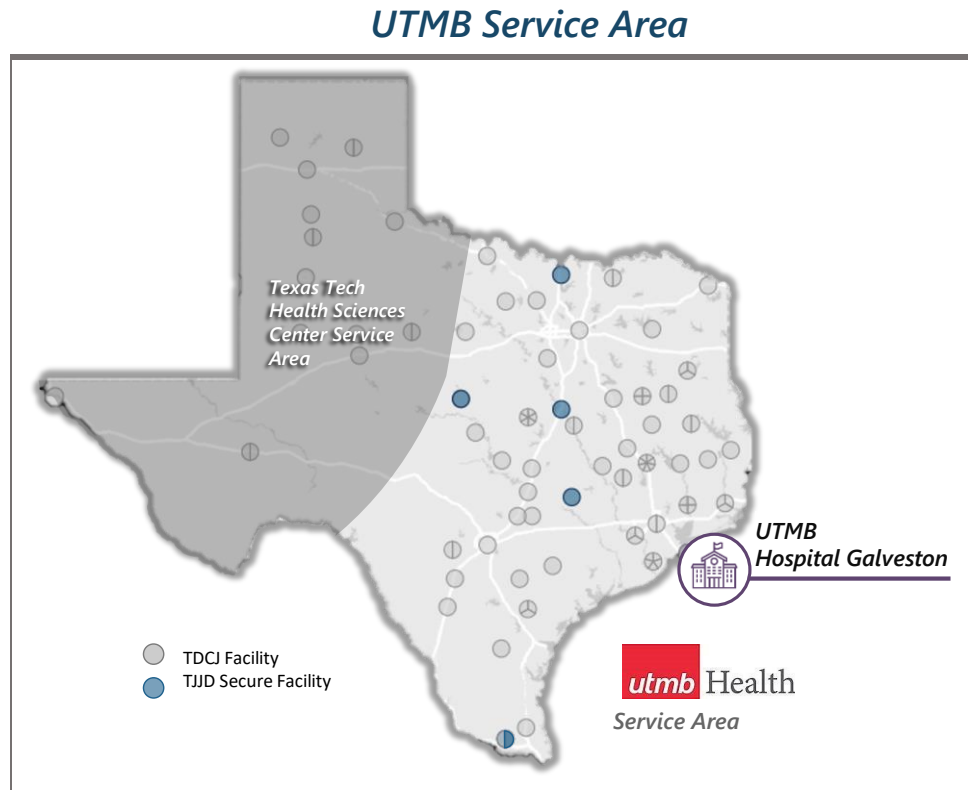
On-site Services. Health care services provided at TDCJ prison units and TJJJ secure facilities include sick calls, mental health services, medication administration, treatment for chronic conditions (such as dialysis), infirmary care that does not require admission to a hospital, dental services, and telemedicine.

Off-site Services. Health care services provided at Hospital Galveston or free-world facilities included both short-term visits—such as emergency care, consultations with free-world specialty physicians, outpatient surgeries, and some physical therapy—and long-term hospice care. While TDCJ inmates are primarily treated at Hospital Galveston and can also be referred to free-world facilities, TJJJ youth are seen within their facilities and at free-world facilities.

Figure 9 on the next page indicates the service area for UTMB.

⁴ The Texas Tech University Health Sciences Center provides health care services to inmates in TDCJ facilities in the state’s western regions.

Figure 9



Source: TDCJ and TJJD.

Contracted Services

Following are additional details about UTMB's use of internal temporary staffing services providers.

Comprehensive Health Solutions (CHS). UTMB spent \$8.6 million for temporary services such as those provided by physicians, psychiatrists, information technology staff, and emergency medical transportation drivers. Out of that amount, \$8.4 million (approximately 97.7 percent) were for services at TDCJ facilities and \$220,770 (2.6 percent) at TJJD secure facilities. The \$8.6 million in temporary services included:

- \$6.0 million (or approximately 69.8 percent) for professional services.
- \$2.6 million (or approximately 30.2 percent) in administrative fees. See [Chapter 1](#) for additional information related to these fees.

HealthCare System Staffing (HCSS). UTMB spent \$71.8 million for temporary services such as those provided by nurses, psychiatrists, and information

technology staff. Out of that amount, \$69.5 million (or 96.8 percent) were for services at TDCJ facilities and \$2.3 million (or 3.2 percent) at TJJJ secure facilities. The \$71.8 million in temporary services included:

- \$57.3 million for nursing staff.
- \$12.0 million for other professional services.
- \$2.5 million for administrative fees to HCSS.

Off-site Medical Services

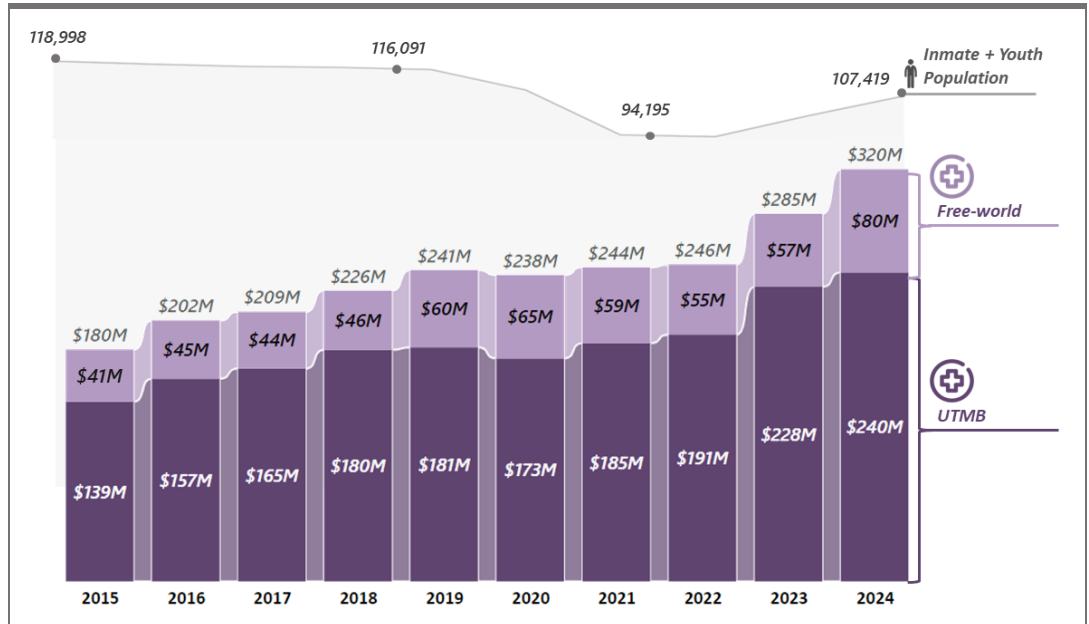
Between September 2015 and August 2024, the Program reimbursed UTMB \$2.4 billion in claims for medical services for patients from TDCJ and TJJJ.

As depicted in Figure 10 on the next page, claims for medical services have continued to increase every year since 2015, with only minor increases during the COVID-19 pandemic, when the number of TDCJ inmates and TJJJ youth declined.

According to UTMB, this increase in claims can be attributed to the increase in the aging population and their need for increased medical care. Based on information UTMB presented in 2023, the population of inmates aged 55 years or older accounted for only about 13 percent of the population but almost 50 percent of hospitalization costs in fiscal year 2019.

Figure 10

Claims for Medical Services From Fiscal Years 2015 Through 2024 ^a



^a As of fiscal year 2017, TJJJ youth are no longer served by UTMB providers; they see free-world providers. Between 2015 and 2017, medical services for TJJJ youth represented an amount significantly less than 1 percent of the total UTMB provider claims.

Source: UTMB, TDCJ, and TJJJ.

Pharmaceutical Purchases

The Program primarily procured medications administered to TDCJ inmates and TJJJ youth using discounted drug pricing under the federal 340B program. Per UTMB’s Prescriptions Dispensed report,⁵ the Program dispensed \$114.7 million in non-controlled substances from fiscal year 2022 through the first half of fiscal year 2024, with approximately \$114.5 million spent on TDCJ inmates and \$200,670 spent on TJJJ youth.

⁵ The Prescriptions Dispensed report shows a total of \$114.7 million in dispensed medications, while [Chapter 3](#) reports that TDCJ and TJJJ paid \$107.5 million in pharmaceutical expenditures for the same period. The difference is due to (1) the Prescriptions Dispensed report includes all prescriptions that the Pharmacy dispensed, some of which were later returned unused to the Pharmacy and therefore did not result in a cost to TDCJ or TJJJ; and (2) prescriptions for controlled substances and other stock medications were dispensed at TDCJ or TJJJ facilities rather than by the UTMB Pharmacy.

The 340B Drug Pricing Program provided significant savings for the Program.

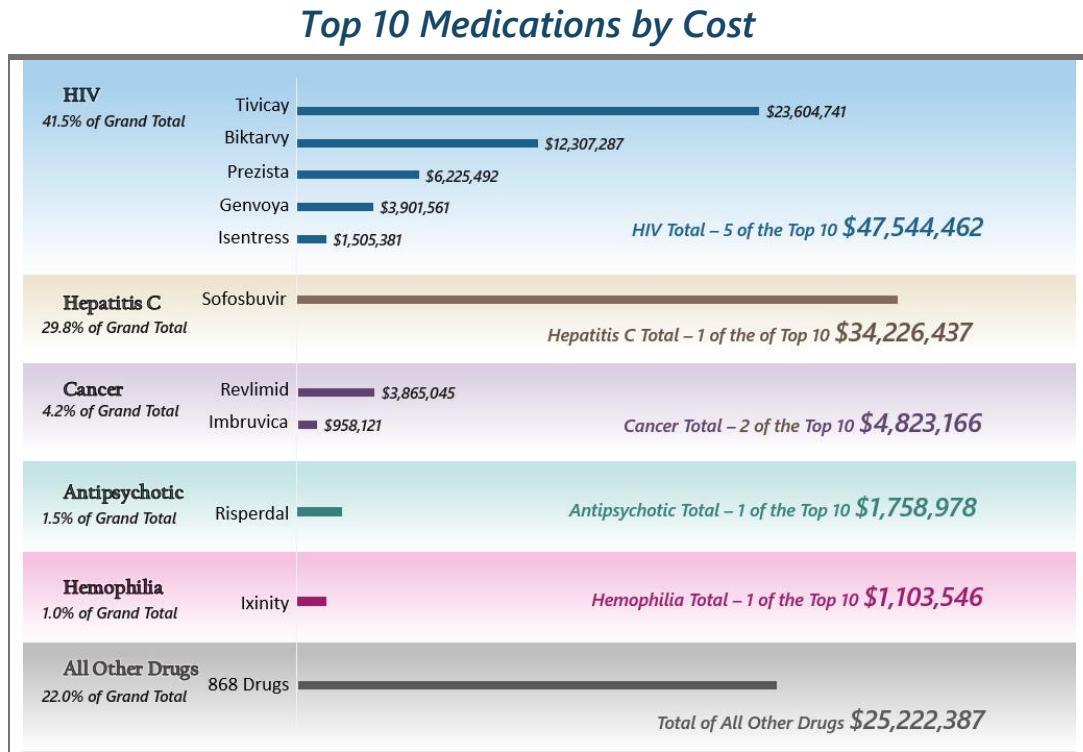
Since April 2002, the Pharmacy has participated in a federal drug discount program known as the 340B Drug Pricing Program (340B), which allows qualifying participants to purchase medications at significantly discounted prices. The Program is eligible for 340B due to UTMB hospitals’ status as disproportionate share hospitals serving low-income patients.

UTMB asserted that the Program saved approximately \$93.2 million in fiscal year 2022 and \$104.6 million in fiscal year 2023 on medication expenses through 340B.

Five medical conditions accounted for the top 10 medications prescribed for TDCJ inmates and TJJD youth.

Of the \$114.7 million in prescription drugs dispensed, the 10 highest-cost non-controlled drugs accounted for \$89.5 million (78.0 percent) (see Figure 11). These medications were used to treat human immunodeficiency virus (HIV), hepatitis C, cancer, psychosis, and hemophilia.

Figure 11



^a This data does not include controlled substances and other stock medications, as the Prescriptions Dispensed report did not include dollar value for those medications.

^b The “All Other Drugs” category includes additional medications for patients with HIV, hepatitis C, cancer, psychosis, and hemophilia, that by cost, were not among the highest cost drugs.

Source: UTMB.

Appendix 3

Related State Auditor's Office Reports

Figure 12

Report Number	Report Name	Release Date
21-004	<i>An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston and Texas Tech University Health Sciences Center</i>	December 2020
11-017	<i>An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston</i>	February 2011
07-017	<i>An Audit Report on Correctional Managed Health Care Funding Requirements</i>	March 2007



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The Honorable Greg Abbott, Governor

The University of Texas Medical Branch at Galveston

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