New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Corrections
Medical Contracts

July 1, 2005 to September 30, 2007

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porrone  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Corrections, Medical Contracts for the period of July 1, 2005 to September 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
December 19, 2007
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Department of Corrections  
Medical Contracts

Scope

We have completed an audit of the Department of Corrections, Medical Contracts for the period July 1, 2005 through September 30, 2007. Our audit included a review of the contracts providing medical, pharmaceutical, and substance abuse treatment to the department’s inmate population. We did not review the contract for dental services. The audit included financial activity accounted for in the state’s General Fund.

Correctional Medical Services is the contractor providing medical, dental and pharmaceutical services to the inmate population of approximately 27,600. The first year of the contract began April 1, 2005. The department is currently in the first year of a two-year extension. The current annual budgeted amount of the contract is $99.5 million. The Gateway Foundation provides substance abuse treatment and counseling for inmates. The original contract period began October 10, 2002. This was a three year contract with various annual and monthly extensions. The department is in the final year of the extensions. The current annual contract amount is $5.1 million.

The department is responsible for the custody, care, discipline, training and treatment of persons committed to state correctional institutions, as well as for those individuals under community supervision. The department operates fourteen facilities and one central reception facility.

Objectives

The objectives of our audit were to determine whether expenditures were in compliance with the contracts; whether overall costs were reasonable; and whether the department’s procedures to monitor contractor performance were adequate.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.
Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Office of Management and Budget, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our review of financial transactions. We also read the budget message, reviewed financial trends and the agency’s website, and interviewed personnel to obtain an understanding of the contracts and the internal controls.

A nonstatistical sampling approach was used. Our samples of transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

We found that expenditures were made using the framework of the contract and overall costs were reasonable; however, the department’s procedures to monitor and verify contractor performance criteria and vendor billings were deficient.
Performance Criteria

Medical, dental, pharmaceuticals, and mental health data are maintained on the Electronic Medical Record (EMR) for the department’s inmate population. All data on the EMR is entered by Correctional Medical Services (CMS) representatives. Weekly, the data from the EMR is presented in the Statewide Weekly Objective Performance Indicators Report. This is a spreadsheet prepared by CMS, which utilizes the data from the EMR and ITAG, the department’s offender’s management system, to measure vendor performance based on specific standards stated in the contract. When the vendor is not performing in accordance with the standards stated in the contract for the specific criteria, liquidating damages may be assessed by the department. It has been determined that the department has never assessed any liquidating damages. An October 2007 report issued by the Inspector General on the contract for dental services indicated whether liquidating damages should have been assessed.

To determine the validity of the data on the EMR, we selected 178 medical encounters at three institutions and attempted to trace them to independent Department of Corrections’ records that would document the movement of the inmate to the clinic on the date of the medical encounter. At the first two institutions we attempted to test 121 medical encounters. However, only 83 encounters were tested because some inmates are not transferred to the clinic for medical encounters and would not appear on any inmate movement record. Our test of the 83 medical encounters disclosed 11 that could not be supported. At the last institution we attempted to test 57 medical encounters and noted 49 encounters that could not be supported by independent DOC records.

Our review disclosed that each institution has Department of Corrections’ representatives that
work with the contractors addressing performance concerns noted on the Statewide Weekly Objective Performance Indicator Report and inmate complaints; however, it is the specific medical data entered into the EMR by the contractor that is used by the department to monitor performance and assess liquidating damages.

**Recommendation**

We recommend that the department establish procedures to use independent documentation to verify the accuracy of EMR reports used to monitor performance and when necessary to assess liquidating damages for underperformance.

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**Vendor Billings**

Correctional Medical Services (CMS) employees are required to swipe their Department of Corrections (DOC) identification badge through the department’s time clock system (Genesis) upon entering and exiting DOC facilities. They also must swipe their badges through their own timekeeping system. The contract states that all personnel shall check in and out on the department’s time clock system when arriving or departing from the DOC facilities. The contractor will not be compensated for hours not logged on the DOC time clock system.

During the second year of the contract which ended March 2007, the department compensated CMS $39 million for wages and fringe benefits. CMS is compensated for actual hours worked at actual hourly rates up to the not-to-exceed amount contained in the contract. We found that the department relies on CMS’s timekeeping system to determine reimbursement amounts and does not reconcile the data to its own timekeeping system. An audit conducted by the department’s Bureau of Audit during fiscal year 2006, reported that the department’s timekeeping system did not record approximately 35 percent of the direct time billed by CMS for
December 2005. This timekeeping system was installed to monitor the hours billed by the health providers; however, the system cannot be relied upon as a monitoring function. We further noted that the Gateway Foundation, which billed wages and fringe benefits totaling $3.2 million for calendar year 2006, was not required to utilize the department’s timekeeping system.

The budgeted annual drug cap for pharmaceuticals for the first two contract years was $15.8 million and $17.3 million, respectively. These budgeted amounts are included in the determination of the inmate rate which is used by Correctional Medical Services (CMS) in the calculation of the monthly charges to the department. If CMS spends less than the amount budgeted, 50 percent of the variance is credited to the department. If CMS spends more than the amount budgeted, the department will pay 50 percent of the overage. During the first two contract years the department’s pharmaceutical expenditures were under the budget by $1.3 million and $1.9 million, respectively.

A CMS subsidiary is the primary source of providing pharmaceuticals to the department. Our review noted that the department does not test any actual pharmaceutical invoices. The only documentation of pharmaceutical expenditures received by the department is a vendor prepared spreadsheet listing monthly expenditures. The vendor’s yearly expenditure spreadsheet is used by the department to review reported actual expenditures to the budget and the credit or billed variance calculation.

Recommendation

We recommend that the department correct the problems with its timekeeping system or establish procedures to test the accuracy of the contractors time billed to the department. We also recommend that the department test the accuracy of the vendor’s pharmaceutical expenditure records.
December 14, 2007

Richard L. Fair, State Auditor
Office of Legislative Services
PO Box 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

I have reviewed the audit report prepared by your office summarizing the audit of the Department of Corrections, Medical Contract for the period July 1, 2005 to September 30, 2007. I appreciate this opportunity to respond to its findings and recommendations.

**Performance Criteria**

**Entries into the Electronic Medical Records**

We are in agreement with your recommendation that a more independent review of the information entered into the Electronic Medical Records (EMR) would improve our internal controls. As a result, the department is drafting a uniform directive for use by all institutions. The iTAG (inmate data base system) generated inmate appointment scheduling feature currently in use will be developed into a movement/scheduling/appointment log. We feel this enhancement will provide a compensating control regarding the EMR entries, since as medical record data, these must be entered by the clinicians of record, who in our case happen to be external service providers. By way of clarification, I have provided the current procedure and the more salient points that will be covered in the forthcoming directive.

**Current Procedure**

At the three locations audited and elsewhere throughout our facilities, the iTAG appointment scheduler is used for scheduling inmate medical and dental visits. The current procedures for recording inmate movement to the medical clinics are different at one of the three facilities your staff visited. Briefly, the following occurs:

- Edna Mahan Correctional Facility for Women (EMCFW) and New Jersey State Prison (NJSP) - A custody officer is stationed at the entrance to the medical unit. The officer
maintains a hand written log of all inmates entering the medical unit. The log records the inmate name, booking number, date and time the inmate arrived at the medical unit. These logs are retained by custody staff indefinitely at EMCFW and for six years at NJSP.

- Northern State Prison (NSP) - A custody officer stationed at the medical unit receives an inmate movement pass from the inmate. The inmate movement pass is prepared by the officer at the sending location. The officer at the medical unit retains the movement passes for approximately two months before disposing of these documents.

Proposed Revisions

Inmate Appointments and EMR Verifications

- Daily, the first shift custody officer stationed at the medical unit will receive an iTAG generated appointment schedule identifying inmates to be seen, scheduled appointment times and reason for the visit. The officer will be required to record the actual time each inmate arrives at the clinic on the schedule. Inmates arriving at the clinic that were not scheduled will be added to the appointment roster by the officer. At the end of each shift the officer stationed at the medical unit, will sign his/her name and record his/her badge number on the appointment roster below the last inmate appointment the officer was responsible for acknowledging. At the end of the third shift, the completed appointment roster will be placed in a binder maintained at the custody post. This binder will be considered a movement/scheduling/appointment log and its maintenance and retention will be the responsibility of the institution’s Director of Custody Operations. The retention period will be six years as required for medical logs. This will independently establish an inmate’s presence at the clinic.

- Weekly, the DOC Health Services Managers (HSM) will select a day at random and test the information recorded in the movement/scheduling/appointment log to the entries recorded in the EMR. The HSM will sign and date his/her copy of movement/scheduling/appointment log attesting to the review. The results of the HSM review will be retained in a separate binder by the HSM for six years as required for medical logs. Discrepancies, if any, will be reported to the NJDOC Medical Director or his designee.

- Our contracted medical professionals currently receive the iTAG appointment schedules daily. The medical professional will now have the inmates sign the appointment schedule after the services are provided. The completed appointment schedules will be submitted daily to the HSM and maintained in a binder by date of service. Each week the HSM will randomly select the completed logs for a day and verify that the inmate signed for the services and an entry was made in the EMR recording the service provided. The retention period for these logs will also be six years and will be the responsibility of the HSM. Discrepancies, if any, will be reported to the NJDOC Medical Director or his
designee. In summary the new procedure for recording inmate movement and inmate services will provide an independent cross check of the entries made into the EMR.

Vendor Billings Related to Timekeeping

In response to the timekeeping finding, I would like to point out our department has dedicated large amount of staff resources attempting to utilize the software packages provided by the state contract vendor of timekeeping software. Due to the limited capabilities with the vendor’s first software package, the vendor began installing a second package approximately two years ago. The vendor encountered problems installing the second software package, causing the department to file a formal complaint (PB-36) with the Division of Purchase and Property to require the vendor to complete the installation. Commencing December, the department anticipates running a parallel system to determine if the second software package will be reliable. Until we are satisfied that the second software package can perform as required, we will continue to use the vendor’s first software package which requires our HSM to manually adjust at the clock for missed card swipes, edit for approved time such as vacations, etc., daily. Our current medical contractor had previously expressed interest in using our time keeping system once it proves to be reliable. Until the system is proven sufficiently reliable, we can’t impose our timekeeping system on a vendor who would use it for payroll.

The Gateway Foundation employees will be required to use the department’s timekeeping system. Their employees will be issued identification badges that can utilize the department’s time clocks, and additional time clocks if necessary will be installed at or near the point of service delivery. Currently, the Gateway Foundation uses a paper timekeeping system for its organization.

It has been a long standing policy for all employees, vendors and guests to sign in and out of a log book maintained by the officers at the entrances (front desk) to our correctional facilities. In response to your recommendation for tighter controls, a separate log book will be maintained at the front desk for vendor healthcare staff. The new medical log book will make identification of healthcare staff at the facility easier and two log books should accelerate the entrance and exit process at the change of shifts. As an additional control, our HSM will randomly once per week review the sign in log at the front desk, reconcile names signed in the log book to the entries in timekeeping system and to the individuals physically present in the facility. Copies of the relevant log book pages and printouts from the timekeeping system used in the reconciliation will be retained by the HSM in a separate binder for six years as required for medical logs.

We have been cognizant of the short comings of our current timekeeping system and as a safe guard asked our Internal Audit Unit to perform an audit of the UMDNJ and the CMS employees billed to the department. The results of the two audits tested 456 employees invoiced to NJDOC from both providers’ payroll systems and found the hours worked and the payroll amounts reported on the invoices submitted agreed with the payroll records in all material respects.
Vendor Billings for Pharmaceuticals.

Currently we do receive all local pharmacy invoices for pharmaceuticals. To increase control, we had intended to test the accuracy of invoiced pharmaceuticals from the vendor’s subsidiary Pharma Care, and had scheduled an audit during FY 2007, which could not be initiated due to staff shortages resulting from state hiring constraints. The audit of pharmaceutical expenditures for FY 2007 and FY 2008 will remain on the department’s audit plan, and will be initiated as soon as staffing availability permits.

In closing, I would like to thank your audit staff for their continued diligent work and professionalism during the audits, and acknowledge their cogent recommendations.

Sincerely,

[Signature]

George W. Hayman
Commissioner

GWH:BTH:rw
c:  Peter T. Roselli, Deputy Commissioner
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