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Office of the State Auditor**

**Department of Corrections
Medical Contracts**

July 1, 2013 to June 30, 2015

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Corrections, Medical Contracts for the period of July 1, 2013 to June 30, 2015. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "Stephen M. Eells".

Stephen M. Eells
State Auditor
June 8, 2016

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Scope

We have completed an audit of the Department of Corrections, Medical Contracts for the period of July 1, 2013 to June 30, 2015. Our audit included a review of contracts providing medical, dental, mental health, and substance abuse treatment to the department's inmate population. The audit included financial activity accounted for in the state's General Fund. We also reviewed user logical access to the Centricity electronic medical record system for the department's inmate population.

Effective February 15, 2011, the New Jersey Department of Corrections (NJDOC) and the University of Medicine and Dentistry of New Jersey (UMDNJ) entered into the "Comprehensive Healthcare Agreement" (CHA) for the provision of inmate medical, dental, and mental health services. This agreement merged two previously executed agreements with UMDNJ for inmate mental health services dated November 1, 2004 and inmate medical and dental services dated October 1, 2008 into one agreement. The NJDOC may extend the CHA through December 31, 2017. In accordance with the New Jersey Medical and Health Science Education Restructuring Act, Rutgers, The State University of New Jersey (Rutgers) assumed the agreement from UMDNJ on July 1, 2013. Contract expenditures totaled \$140.7 million and \$138.8 million in fiscal years 2014 and 2015, respectively.

The Gateway Foundation provides substance abuse treatment and counseling for inmates. The contract, entered into on behalf of the NJDOC by the Department of the Treasury, Division of Purchase and Property, was for an initial term of four years and may be extended for three additional periods of up to one year each. Contract expenditures averaged \$5.6 million annually during the audit period.

The department's mission is to protect the public by operating safe, secure, and humane correctional facilities through effective supervision, proper classification, appropriate treatment of offenders, and by providing services that promote successful re-entry into society. The department operates 13 major institutions that collectively house approximately 22,000 inmates in minimum, medium, and maximum security facilities.

Objectives

The objectives of our audit were to determine whether expenditures were in compliance with contract terms, the department's procedures to monitor contractor performance were adequate, and overall costs were reasonable. In addition, we determined the adequacy of the select general control over user logical access for the Centricity electronic medical record system. We also tested for resolution of the significant condition regarding vendor billings noted in our prior report dated December 19, 2007.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, policies of the department, and applicable medical contracts. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and testing. We also read the budget messages, reviewed financial trends, and interviewed department and contractor personnel to obtain an understanding of the contracts, information systems, and internal controls.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and performed tests to determine if the corrective action was effective.

Conclusions

We found expenditures were in compliance with contract terms, the department's procedures to monitor contractor performance were adequate, and overall costs were reasonable with the exception of reimbursements for overhead and fringe benefits. In addition, we found weaknesses in the Centricity electronic medical record system's user logical access control. However, we did not find any instances where these weaknesses were used to impact the system's data. We also found that the department has not resolved the significant issue noted in our prior report regarding vendor billings. This issue has been updated and restated in the current report.

Overhead

The NJDOC paid \$905,300 for overhead costs not incurred by Rutgers.

The Comprehensive Healthcare Agreement (CHA) entered into with Rutgers, The State University of New Jersey (Rutgers) for inmate healthcare services stipulates that the NJDOC will reimburse Rutgers for actual costs plus overhead. Reimbursements for overhead are paid at the rate specified in the annual budget required by the CHA. Overhead reimbursements totaled \$6.1 million and \$5.9 million in fiscal years 2014 and 2015, respectively, and were calculated at a rate of 5.44 percent of contract costs excluding fringe benefits, malpractice insurance, and certain administrative salaries. However, the composition of overhead costs used to establish the rate is not supported. It should be noted that Rutgers utilizes NJDOC facilities for the majority of their operations, and hospital services are not provided by Rutgers, which should limit overhead costs.

The overhead rate is being applied to hospitalization costs for which the services are not provided by Rutgers. Hospitalization is provided by Saint Francis Medical Center (SFMC) and other providers. Overhead reimbursements to Rutgers that were calculated on inmate hospitalization costs totaled \$905,300 during the audit period.

- Hospitalization costs for which overhead was paid included provider inpatient, outpatient, and physician claims totaling \$6.65 million during the audit period. These claims from SFMC and other providers were submitted to Molina Medicaid Solutions (MMS) for processing. Rutgers was not involved in the claim process but was still reimbursed \$361,500 for overhead.
- Pursuant to agreements executed with Rutgers, SFMC and two other hospitals received supplemental compensation of \$2.68 million collectively in fiscal year 2014 for maintaining a secure unit for inmates. The compensation was calculated as a percentage of each hospital's inpatient claims processed by MMS for hospital admission dates prior to January 1, 2014. For example, SFMC was paid supplemental compensation at a rate of 106.42% of the inpatient services claim paid amount. Rutgers was reimbursed \$145,900 for overhead on these supplemental payments. As a result, overhead was effectively paid twice on the inpatient claims processed by MMS for SFMC and the two other hospitals. Supplemental payments are no longer paid to any of the hospitals for inpatient services starting on or after January 1, 2014.
- Pursuant to an agreement with Rutgers effective January 1, 2014, SFMC receives an annual payment of \$212,000 per bed to maintain a 23-bed secure unit for NJDOC inmates. The total annual payment of \$4,876,000 is processed by Rutgers and reimbursed by NJDOC monthly. Rutgers was reimbursed approximately \$397,900 for overhead on payments totaling \$7,314,000 that were processed from January 2014 to June 2015. Although Rutgers executed the agreement with SFMC and processed the payments, they do not incur any direct costs to maintain and operate the unit. Salary and fringe costs for Rutgers employees

who collaborate with SFMC are already included in a separate overhead calculation.

Hospitalization costs are included in the CHA budget every year and overhead is calculated on the cost. These costs, however, are inherent to inmate healthcare and would be incurred by the NJDOC regardless of any provider service agreements. The NJDOC could have saved \$905,300 during the audit period if overhead was not calculated on hospitalization costs for which Rutgers does not incur an expense.

Recommendation

We recommend the Comprehensive Healthcare Agreement be amended to exclude inmate hospitalization claims processed by MMS, and payments to SFMC for maintaining a secure wing for inmates, from the overhead calculation. We further recommend that the department require and review supporting documentation for the overhead rate charged.



Salary Reimbursements

Healthcare Provider Log Books are not being utilized to support salary reimbursements as required by the agreement.

The NJDOC is not processing salary reimbursements to Rutgers, The State University of New Jersey (Rutgers) in accordance with the Comprehensive Healthcare Agreement. The agreement requires the NJDOC to maintain a Healthcare Provider Log Book at each facility. Rutgers' employees are required to legibly record their name and the time they enter and exit the facility. Rutgers is to be compensated monthly for hours recorded in the Healthcare Provider Log Book, and for hours attributable to vacation, sick, holiday, or other approved leave, for which the Rutgers time-reporting system will be accepted. As noted in the prior audit of NJDOC Medical Contracts, we found the department still relies on a contractor's timekeeping system to determine salary reimbursement amounts. The lack of review increases the risk of Rutgers being reimbursed for unearned salary costs. The department compensated Rutgers \$59.3 million and \$59.5 million for wages in fiscal years 2014 and 2015, respectively.

We judgmentally selected four of the 12 major correctional facilities that the NJDOC is currently operating for review. For a random sample of employees at each facility, time worked per the Rutgers timekeeping system for a monthly reimbursement period was compared to the facility's Healthcare Provider Log Book for support.

For three of the four sampled correctional facilities, we collectively reviewed 982 paid work days for a sample of 63 medical staff and noted 79 instances where an employee failed to record their starting and ending times in the log book; 19 instances where an ending time was not recorded; 89 instances where either the starting or ending time recorded in the log book did not match the timekeeping records; and 28 instances where the starting or ending time recorded in

the log book was illegible. Rutgers' medical staff at the fourth facility reviewed was found to be completely ignoring the log book for the most part. For 19 sampled medical staff, starting and ending times were not recorded in the log book for 251 of 254 work days reviewed, including 68 work days for which the log book could not be provided. Our review of 792 paid work days for a sample of 52 mental health staff noted only slightly better results.

In addition, Rutgers Policy 60.9.9 states that staff shall not have the option of foregoing a meal period and altering their scheduled work hours. We noted 149 instances where a 30-minute unpaid lunch was not built into an employee's daily work schedule.

Recommendation

We recommend the NJDOC utilize the Healthcare Provider Log Books to verify they are in agreement with the Rutgers timekeeping system used to bill for salaries. In addition, we recommend the NJDOC require Rutgers to enforce their policy involving staff schedule and unpaid meal periods.



Fringe Benefits

Fringe benefits should not be paid on the salaries of part-time employees.

The NJDOC incorrectly reimbursed Rutgers, The State University of New Jersey (Rutgers) \$245,000 and \$205,000 in fiscal years 2014 and 2015, respectively, for fringe benefits that were calculated on part-time employees' salaries. The Comprehensive Healthcare Agreement with Rutgers specifies that the fringe rate will be based on the applicable fiscal year circular letter issued by the State of New Jersey, Department of the Treasury, Office of Management and Budget. The circular letter specifically states that salaries of part-time employees are to be excluded from the calculation. FICA and Medicare taxes were properly reimbursed to Rutgers and are not included in the aforementioned amounts.

Recommendation

We recommend that all future reimbursements to Rutgers for fringe benefits be calculated on the base salaries of full-time employees only.



System Access Controls

Employee access controls to the inmate electronic medical record need to be strengthened.

The NJDOC uses the Centricity electronic medical record system (EMR) to document an inmate's medical history. Access to the NJDOC network and the EMR is granted to both NJDOC staff and Rutgers, The State University of New Jersey employees that have had the required user access request forms completed by their supervisor or NJDOC sponsor. The same forms are utilized to change or terminate access rights. User privileges within the EMR are controlled through the assignment of a Role which allows specific functions based on the employee's title. Our review found that the NJDOC does not have formal policies or procedures for removing user access specific to the EMR and the request forms are not routinely completed to delete access for separated employees. Our review of all 1,396 active logon IDs with write (input and/or modify) capabilities in the EMR disclosed the following.

- There were 183 logon IDs that had never logged into the EMR.
- There were 142 logon IDs that had not accessed the EMR since 2014.
- There were 122 logon IDs that last accessed the EMR between 2006 and 2013.
- The NJDOC was not aware of a SUPERUSER logon ID that was still active and last accessed the EMR in February, 2015. This logon ID has the capability to perform the functions of every Role in the EMR. In addition, we observed that any EMR user can sign into the system using the SUPERUSER logon ID if the password is known.

The NJDOC deleted the SUPERUSER logon ID after we brought this issue to their attention. In addition, the department reduced the number of active logon ID's with write capabilities from 1,396 to 1,203. However, 67 active logon IDs that last accessed the EMR between 2008 and 2013 remained as of October 2015.

Adequate and effective application access controls are needed to provide reasonable assurance that only authorized personnel have access to the EMR and sensitive inmate medical records are protected.

Recommendation

We recommend the NJDOC develop and implement formal policies and procedures for the removal of user access to the EMR, which includes a routine review for user inactivity and separated employees.



Observation

Medicaid

Pursuant to the federal Patient Protection and Affordable Care Act (PPACA) of 2010, New Jersey has elected to expand Medicaid eligibility to single adults ages 19 to 64 years with incomes up to 133 percent of the federal poverty level effective January 1, 2014. As a result of this expansion, many inmates will meet the income requirements for Medicaid eligibility. Federal Medicaid matching funds can be obtained for inpatient services provided to Medicaid eligible inmates who are admitted to hospitals or other qualifying facilities for at least 24 hours. The PPACA also provides for the federal government to reimburse 100 percent of care for newly eligible individuals during the first three years of the act.

Inmate claims for inpatient hospital services are processed by the state's fiscal agent, Molina Medicaid Solutions (MMS). All claims including those associated with inmates who may not be Medicaid eligible are processed. As of February 2015, for hospital admission dates on or after January 1, 2014, MMS has processed a total of \$6.1 million inpatient claims for inmates.

Through January 2015, a manual process was utilized to obtain federal Medicaid matching funds for Medicaid eligible inmates. Rutgers, The State University of New Jersey (Rutgers) was responsible for having the inmate complete the Medicaid application and the New Jersey Department of Human Services, Division of Medical Assistance and Health Services (DMAHS) was responsible for submitting eligible claims to the federal government to obtain matching funds. DMAHS had to manually research each inmate identified on the MMS claims processed reports to determine if they were enrolled in Medicaid. Using this process, a total of \$2.4 million in federal matching funds has been received by the NJDOC as of June 30, 2015, for service performed on or after January 1, 2014.

We reviewed all 486 inpatient claims totaling \$4.3 million that were processed by MMS for inmate hospital stays occurring between January 1, 2014 and September 30, 2014 to determine if they were submitted by DMAHS to the federal government for reimbursement. We found 183 claims totaling \$1.7 million, of which some could be for Medicaid ineligible inmates, were not submitted for reimbursement. We noted that, per Rutgers, \$352,000 of the non-submitted claims were for inmates under the age of 65 who did not complete a Medicaid application. Non-submitted claims for inmates ages 65 or older totaled \$570,000 that included an additional \$285,000 which, according to Rutgers, also resulted from incomplete Medicaid applications. Furthermore, we noted \$239,000 in non-submitted claims for inmates who were enrolled in Medicaid after the claim was incurred. The PPACA did not change Medicaid eligibility requirements for inmates 65 and older.

Beginning in February 2015, New Jersey hospitals that were certified Presumptive Eligibility (PE) providers could complete the new *Presumptive Eligibility for Inmates* application found online to enroll eligible state inmates ages 19 to 64 in Medicaid. The intent of PE is to provide temporary insurance until full eligibility is determined by the local county welfare agency.

Medicaid eligible inmate claims for service dates on or after January 1, 2014 would be billed to MMS using the inmate's Medicaid ID number. The new PE process described above should significantly improve state efforts to enroll inmates in Medicaid and obtain federal matching funds for allowable services.

Although the responsibility for Medicaid enrollment and the drawdown of federal matching funds rests primarily outside the NJDOC, the NJDOC should still implement procedures to verify that a Medicaid application for inmates, who have been admitted to hospitals or other qualifying facilities for at least 24 hours, has been completed.

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May 23, 2016

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Dear Mr. Termyna,

I have reviewed the audit report of the New Jersey Department of Corrections (NJDOC), Rutgers Medical/Mental Health Contracts performed by your office for the period of July 1, 2013 to June 30, 2015. Thank you for the opportunity to respond and provide comments to your office prior to the release of the audit.

Our understanding of the objectives of the audit was to determine whether expenditures were in compliance with contract terms, the department's procedures to monitor contractor performance was adequate, and overall cost were reasonable. In addition, the adequacy of select control over user access for the Centricity electronic medical record system was tested. Also, resolution to vendor billings from a prior audit report was tested. The following is in response to each area outlined in the audit.

Overhead

OLS Finding: The NJDOC paid \$905,000 for overhead cost not incurred by Rutgers.

DOC Response:

In 2005 Legacy UMDNJ and NJDOC entered into a Comprehensive Healthcare Agreement (CHA) for mental health services using an overhead rate of 10%, consistent with the customary overhead rate charged

by UMDNJ and Rutgers under similar agreements with the Departments of Human Services, Children's Services and Health. When the medical and dental components were added to the CHA in 2008, NJDOC successfully negotiated a lower rate for the medical/dental agreement. Subsequently, through amendments to the agreement, Legacy UMDNJ and NJDOC arrived at a composite rate of 5.44% for medical, dental and mental health services. This rate included the contractual reimbursements made to purchase hospital services on behalf of the NJDOC and payments directly to be made through Molina Medicaid Solutions (MMS) as the fiscal agent for NJDOC. The negotiated overhead rate of 5.44% includes all general administrative and operational cost to support Rutgers during the course of the contract which includes such items as accounts payable, accounts receivable and personnel. Based on the current agreement, Rutgers does provide administrative support with regards to hospitalization provided by St. Francis Medical Center (SFMC). Rutgers assists in providing such services as processing of Medicaid applications and managing bed space utilization for NJDOC.

See Auditor's
Followup Response
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Salary Reimbursement

OLS Finding: Healthcare Provider Log Books are not being utilized to support salary reimbursement as required by the agreement.

DOC Response:

The NJDOC will continue to work with Rutgers staff in improving and developing a more formal time keeping process. Rutgers has already stated that they would support an amendment to the Service Agreement to more accurately describe the internal controls related to time and attendance of UCHC employees working within NJDOC. In addition, the NJDOC internal audit unit will conduct random sample tests of Rutgers time sheets, institutional log books and invoices submitted by Rutgers.

Fringe Benefits

OLS Finding: Fringe benefits should not be paid on the salaries of part-time employees.

DOC Response:

The NJDOC contacted the Office of Management and Budget (OMB) for guidance about fringe benefits for part-time employees. OMB confirmed that in accordance with Circular Letter (15-12-OMB) part-time employees are not included in the Fringe Benefit calculation. All employees working less than 35 hours per week are considered part-time per OMB-Payroll. Effective immediately, the NJDOC has instructed and notified Rutgers in writing to discontinue charging the NJDOC for fringe benefits for part-time employees.

System Access Controls

OLS Finding: Employee access controls to the inmate electronic medical record need to be strengthened.

DOC Response:

The NJDOC will enforce its current policy ITT.001.OIT.001 which states that all supervisory personnel shall submit an Attachment 2.0 form to notify DOC-OIT of any termination, suspension, transfers of any kind or extended leave of any employee. The NJDOC has also recently procured a software solution which will assist in automating the process of disabling dormant accounts as well as process separation reports. This will ensure that NJDOC's network is secure and allow us to promptly address current audit exceptions. In addition, the NJDOC internal audit unit will conduct routine reviews to ensure compliance.

Medicaid (Observation):

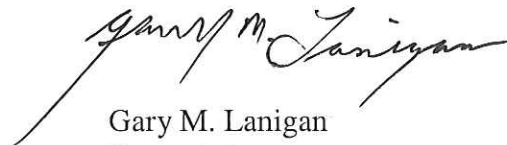
OLS Observation: NJDOC should implement procedures to verify that a Medicaid application for inmates, who have been admitted to hospitals or other qualifying facilities for at least 24 hours, has been completed.

DOC Response:

NJDOC continues to work closely with the Department of Human Services (DHS) to insure that inmates under the age of sixty-five (65), who are hospitalized for more than 24 hours, are enrolled in Medicaid at the hospital through the presumptive eligibility (PE) process, provided the hospital is a certified PE provider. NJDOC maintains a database of inmate hospitalizations which is compared to the Molina report of claims paid each week. Claims processed through Molina (paid by NJDOC), that otherwise appear Medicaid eligible, are forwarded to DHS for review. Beginning March 2016, an edit was added to the system which would disallow a claim being paid by the inmate SBI number (paid by NJDOC) when an open Medicaid number exists. NJDOC will continue to monitor the claims processed through Molina and follow up with DHS on those claims that appear to be Medicaid eligible.

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

Very truly yours,



Gary M. Lanigan
Commissioner

GL:am

c Judi Lang, Chief of Staff
Stephen D'Ilio, Deputy Commissioner
Gary T. Alpert, Assistant Commissioner, Administration
Patricia Loreti, Director, Office of Financial Management
Ralph P. Woodward, Managing Physician

Auditor's Followup Response

The Department of Corrections response to the Overhead finding is factually accurate regarding provisions contained in the Comprehensive Healthcare Agreement. However, the department records do not contain any support regarding the costs that the negotiated reimbursement was intended to recover. Therefore, the department cannot determine with any certainty whether \$6 million meets, exceeds, or falls short of Rutgers' need for overhead cost recoveries.