Georgia Department of Audits and Accounts
Performance Audit Operations
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# Information on Inmate Health Care Cost Projections

## Why we did this review

The purpose of this examination was to compile information requested by the Senate Appropriations Committee on health care cost projections for Inmate Health Care provided by the Georgia Department of Corrections (GDC). The Committee specifically requested a reconciliation of Inmate Health Care appropriations to expenditures for the past 10 years and a comparison of GDC's cost projection methodology with that used by other states. The Committee also requested general comments on how accurately the Department of Corrections has projected expenses for Inmate Health Care.

## Who we are

The Performance Audit Operations Division was established in 1971 to conduct in-depth reviews of state programs. The purpose of these reviews is to determine if programs are meeting their goals and objectives; provide measurements of program results and effectiveness; identify other means of meeting goals; evaluate the efficiency of resource allocation; and assess compliance with laws and regulations.

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## Background

Inmates in the custody of state, federal, or local correctional systems are entitled to a constitutionally required level of health care. In Georgia, the Office of Health Services (OHS) within the Georgia Department of Corrections (GDC) is responsible for ensuring that adequate health care is provided to the inmates in the state's correctional system.

Georgia has one of the largest state inmate populations in the United States, with over 54,000 inmates housed in 115 facilities. GDC operates 88 facilities and contracts with 24 county correctional institutions and three private prisons to house state inmates. Private prison operators and counties are primarily responsible for the health care of inmates housed in their facilities; however, the Department may be responsible for a portion of the health care costs for these inmates. Health care services in GDC facilities are provided by a combination of GDC employees and contracted entities. Upon entrance into the GDC correctional system, an inmate is housed in one of GDC's four diagnostic state prisons. Personnel administer a battery of tests to diagnose medical problems, establish treatment needs, and determine an inmate's physical capabilities.

Most inmates' primary physical health care needs are addressed through clinics available at all state prisons, as well as other GDC-operated facilities. For some services, inmates are charged a co-payment of $5. Treatment provided by specialists generally occurs outside of an inmate's facility. Mental health care is provided by mental health counselors, mental health nurses, psychologists, and psychiatrists staffed at facilities throughout the GDC system. Inmates undergo dental examinations as part of their diagnostic intake, and they may request additional dental services as needed.

In July 1997, GDC entered into an agreement with the Medical College of Georgia (MCG) to provide health care services to inmates in GDC facilities. As a result of the agreement, Georgia Correctional Health Care (GCHC) was created within MCG to manage physical health care operations, to provide intake services at diagnostic facilities, to provide physical health care clinics, and to negotiate and manage contracts with health care service providers. In fiscal year 1998, GDC contracted with MHM Services, Inc (MHM) for the provision of psychiatrists and psychologists. Since that time, the contract with MHM has been expanded to include additional mental health and dental staff.

According to agency records, OHS expended approximately $194 million to provide health care to inmates in fiscal year 2007, of which approximately $176 million (91%) was state funds, $17 million was "telephone commissions" collected on calls made by inmates, and $1 million was other miscellaneous revenue collections such as the inmate store fund. OHS spent approximately $180.2 million (93% of total health care expenditures) on "health services purchases," which includes the contracts with GCHC and MHM.

## Examination Scope and Methodology

This is an informational report and therefore was not was conducted in accordance with generally accepted government auditing standards for performance audits. In conducting this examination, the team researched applicable laws, interviewed key personnel with the Department of Corrections, and surveyed personnel from the contiguous states regarding their methodology for projecting health care costs. Information from the Report of the State Auditor and the Budgetary Compliance Report released by the State Accounting Office was used to reconcile appropriations to expenditures for the past 10 years, and information on how the agency projected health care costs was reviewed for the past 3 fiscal years. It should be noted that only limited reviews were conducted to validate information provided by GDC.

This report has been discussed with appropriate personnel representing the Department of Corrections. A draft copy was provided for their review and they were invited to provide a written response regarding the information provided in this report. The Department's response is included in this report as appropriate.

## Requested Information

### A reconciliation of the General and Amended Appropriations for Inmate Health Care Services to actual expenditures for the past 10 years

**Exhibit 1** shows the appropriations, final budget, and actual expenditures for Georgia Inmate Health Care for fiscal years 1998 through 2007. The final budget includes any budget amendments that were made during the year. The variance shown in the Exhibit is a comparison of the Department's actual health care expenditures to its final budget (which includes any budget amendments). This comparison reflects the Department's ability to make changes in its spending patterns to ensure that it does not exceed the amount it is legally authorized to spend. It should be noted that appropriations and expenditures for fiscal years 1998 through 2005 reflect expenses for "health services purchases," which only includes costs associated with health care contracts. In fiscal year 2006, the Department switched to a program budget in which all health care expenses are budgeted together as a program. As can be seen in the **Exhibit**, the variance between the Department's actual health care expenditures and its final budget is normally very small. For example, the Department's health care expenditures were .60% less than the Department's final budget in fiscal year 2007.

**Exhibit 1**
**Reconciliation of Inmate Health Care Appropriations and Final Budget to Actual Expenditures**
**Fiscal Years 1998 - 2007**

| Fiscal Year | Appropriation | | Final Budget[1] | Actual Expenditures | Variance Actual to Budget (Positive indicates exp.< budget) | |
|---|---|---|---|---|---|---|
| | Original | Amended | | | | |
| 1998 | $67,146,736 | $71,075,480 | $76,373,259 | $76,373,259 | $0 | 0.00% |
| 1999 | 73,497,764 | 80,460,040 | 91,626,123 | 91,441,059 | 185,064 | 0.20% |
| 2000 | 84,363,894 | 100,787,031 | 103,587,407 | 103,356,888 | 230,519 | 0.22% |
| 2001 | 103,388,752 | 103,961,852 | 116,335,269 | 116,291,662 | 43,607 | 0.04% |
| 2002 | 111,000,830 | 115,272,611 | 118,417,432 | 118,411,616 | 5,816 | 0.00% |
| 2003 | 126,820,841 | 127,465,757 | 133,951,974 | 133,951,974 | 0 | 0.00% |
| 2004 | 129,217,257 | 130,643,440 | 133,574,259 | 131,975,459 | 1,598,800 | 1.20% |
| 2005 | 132,787,968 | 133,515,006 | 151,279,052 | 151,146,390 | 132,662 | 0.09% |
| 2006[2] | 160,007,352 | 177,674,786 | 180,357,092 | 179,182,905 | 1,174,187 | 0.65% |
| 2007 | 184,488,247 | 184,488,247 | 195,155,390 | 193,980,092[3] | 1,175,298 | 0.60% |

[1] Includes all amendments for the fiscal year and is the amount that the Program is legally authorized to spend.

[2] Prior to fiscal year 2006, appropriations and expenditures reflect Health Services Purchases, which only includes contractual costs. The amounts reported in fiscal years 2006 and 2007 include all health care costs.

[3] Based on agency records

Sources: 1999-2005 Reports of the State Auditor, 2006 Budgetary Compliance Report, 1998-2007 Georgia Session Laws, OPB's BudgetNet (2007 data), Agency Records

**Exhibit 1** also shows that in fiscal years 2005, 2006, and 2007, there were significant funding increases between the original appropriations and final budgets. Department personnel indicated that they experienced faster than projected inmate population growth, an increase in the average length of stay of inmates, and an increase in catastrophic direct care claims during these years. In response, the Department amended into the final budget additional funding from sources such as telephone commissions and inmate store funds.

## A comparison to how other states make projections for inmate health care costs

### Georgia's Cost Projection Methodology

GDC does not develop annual cost projections for its health care costs. It does develop budget requests based on instructions from the Office of Planning and Budget. These budget requests are constrained based on the amount of funding that is expected to be available to GDC for the coming year. The budget requests also consider estimates for future costs developed by GCHC (which accounts for approximately 80% of the total GDC health care expenditures). GCHC estimates its future health care costs based on historical growth rates of line items (staffing, direct care, pharmaceuticals, etc). GCHC works with the Department to establish a feasible budget for their portion of the program which is incorporated into the Department's overall health care budget request.

*In its response to the draft of this report, the Department noted that in 2002 they developed a five-year projection for its health care costs based on estimated inmate population growth and cost increases during the previous two years. The Department also noted that it prepared a Ten-Year Master Plan in 2006/2007 that will be used for budget and construction planning purposes, and that they are collaborating with GCHC on an unconstrained health care cost projection for fiscal year 2009 based on historical trends, the Consumer Price Index (CPI), average increases in direct care, and projected inmate demographics.*

### Cost Projection Methodologies Used By Other States

The examination team contacted the five contiguous states to obtain information on how they project health care costs for their inmate health care services.

- **Alabama** – Alabama did not respond to our request for information.

- **Florida** – Inmate health care costs are projected based on several factors, including historical costs, recent trends, legislative actions, contract rates, and changes in programs or services. In addition, Florida evaluates external information such as the Consumer Price Index and industry research on pharmaceutical costs. The projection is usually the amount submitted as the official budget request.

- **North Carolina** – North Carolina projects inmate health care costs by multiplying the previous year's actual costs by an inflation factor established

by the state budget office. However, personnel noted that this method typically results in an amount that is higher than what the legislature is likely to approve and adjustments have to be made during the budget process.

- **South Carolina** – The state legislature appropriates funding each year based on historical costs. The Department of Corrections does not project inmate health care costs.

- **Tennessee** – Tennessee projects inmate health care costs based on the medical Consumer Price Index and contract rates. The cost projection is submitted as the budget request.

## General comments on how accurately GDC projects health care expenses

As previously discussed, GDC prepares an agency budget request for its healthcare program (that includes funding constraints identified by the Office of Planning and Budget) but does not prepare an unconstrained projection of its anticipated health care costs. **Exhibit 2** shows the Department's health care budget request, the Governor's budget request, the final budget, and the Department's actual health care expenditures for fiscal years 2005 through 2007. The Department's budget request and Governor's budget request are usually less that the amount actually expended; the Department has amended in additional funding during the year to cover anticipated expenditures. The Department's final health care expenditures were typically slightly less than its final budget amounts (including amendments) because agencies generally adjust their service levels to accommodate the amount of funding they are legally authorized to spend.

**Exhibit 2**
**Inmate Healthcare Cost Projections, Final Budgets and Expenditures**
**Fiscal Years 2005 - 2007**

| Fiscal Year | Agency Projections[1] | Agency's Budget Request | Governor's Budget Request | Final Budget[2] | Actual Expenditures |
|---|---|---|---|---|---|
| 2005[3] | Not Projected | $133,275,678 | $131,921,967 | $151,279,052 | $151,146,390 |
| 2006 | Not Projected | 160,205,085 | 159,725,013 | 180,357,092 | 179,182,905 |
| 2007 | Not Projected | 181,079,110 | 186,829,253 | 195,155,390 | 193,980,092 |

[1] In 2000 and 2002, GDC developed five-year projections but it did not prepare updated projections for fiscal years 2005 through 2007.

[2] Includes all amendments for the fiscal year and is the amount the Program is legally authorized to spend.

[3] In fiscal year 2005, the amounts shown only include costs for Health Services Purchases (contracts). The amounts reported in fiscal years 2006 and 2007 show all health care costs.

Sources: 2005 Report of the State Auditor, 2006 Budgetary Compliance Report, OPB's BudgetNet, Agency Records

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