



**AUDIT OF THE FEDERAL BUREAU OF PRISONS MEDICAL  
SERVICES CONTRACT WITH THE UNIVERSITY OF  
TEXAS MEDICAL BRANCH  
CONTRACT NO. DJB50211015**

U.S. Department of Justice  
Office of the Inspector General  
Audit Division

Audit Report GR-60-12-001  
December 2011

**AUDIT OF THE FEDERAL BUREAU OF PRISONS  
MEDICAL SERVICES CONTRACT WITH  
THE UNIVERSITY OF TEXAS MEDICAL BRANCH  
CONTRACT NO. DJB50211015**

**EXECUTIVE SUMMARY**

The Office of the Inspector General, Audit Division, has completed an audit of the Federal Bureau of Prisons (BOP) Contract No. DJB50211015, awarded to the University of Texas Medical Branch (UTMB). The purpose of the contract is to operate and manage health services units (HSU) at the Federal Correctional Complex in Beaumont, Texas (FCC Beaumont). An indefinite-delivery requirement contract was awarded to UTMB on July 18, 2007, and as shown below, had an estimated award amount of over \$98 million for the base year and four option years. Actual costs for the base year and the first three option years were \$66,707,293. At the time of our audit, option year 4 had not been exercised.

**EXHIBIT 1  
CONTRACT PERIOD AND COSTS<sup>1</sup>**

<b>Contract Period</b>	<b>From</b>	<b>To</b>	<b>Estimated Cost</b>	<b>Actual Cost</b>
Base Year	07/18/07	07/17/08	\$ 17,746,483	\$ 17,269,429
Option Year 1	07/18/08	07/17/09	\$ 18,625,035	\$ 17,271,795
Option Year 2	07/18/09	07/17/10	\$ 19,785,555	\$ 18,809,997
Option Year 3	07/18/10	07/17/11	\$ 20,576,145	\$ 13,356,072
Option Year 4	07/18/11	07/17/12	\$ 21,408,345	\$ 0
<b>Total</b>			<b>\$ 98,141,563</b>	<b>\$ 66,707,293</b>

Source: The medical services contract and the list of contract-related expenditures

The objectives of our audit were to determine if: (1) the solicitation process for the contract was in accordance with the BOP's policies and procedures, (2) the contractor provided the supplies and services at the cost and time agreed to in the contract, (3) payments were only made for supplies and services that were allowable and authorized, (4) the BOP and contractor submitted required reports, (5) the contractor's billing process was adequate and proper documents were provided to the BOP in support of its requests for payment, and (6) the BOP effectively monitored the contract.

<sup>1</sup> Differences between the aggregated costs and totals are due to rounding.

Additionally, a sample of source documents was reviewed at FCC Beaumont to determine if billings were adequately supported.

In conducting the audit, we obtained an understanding of the contract requirements along with FCC Beaumont's controls and processes. We reviewed documents and conducted interviews at the FCC Beaumont facilities and with UTMB Officials to determine if the contractor provided services in accordance with the contract and if billed costs were accurate. Our audit disclosed that UTMB generally met the terms and conditions of the contract and followed applicable laws, regulations, and guidelines with the following exceptions.

- According to FAR Subpart 32.905 *Payment Documentation and Process*, payments will be based on receipt of a proper invoice. Of the 24 vouchers tested, 16 were incomplete or contained incorrect information on the invoices, and 3 were missing invoices altogether.
- According to FAR 22.1002-2 *Wage Determinations Based on Prevailing Rates*, contractors performing on service contracts in excess of \$2,500 shall pay their employees at least the wages found by the Department of Labor to prevail in the locality. We found that FCC Beaumont did not ensure that UTMB was paying its employees the minimum wage rate as defined by the Department of Labor. Specifically, we determined that in the third option year, 4 of 110 UTMB employees were paid less than the minimum wage rate.

Our audit also disclosed that FCC Beaumont did not verify that all portions of UTMB's invoices were calculated correctly resulting in an overpayment of \$2,394 to UTMB for off-site medical services at UTMB's prison hospital. According to the BOP's Program Statement P6010.02, *Health Services Administration, the Health Services Administrator (HSA) is responsible for verifying the accuracy of the invoice, including determining if the billed services were authorized and appropriate and have been completed*. Additionally, according to the BOP's Program Statement P4100.04, *Bureau of Prisons Acquisition Policy*, requests for purchases and/or other prescribed forms shall be signed or initialed by a cost center manager; and according to the contract, any services to be furnished under the contract shall be ordered by issuance of a task order. During transaction testing, we found one voucher was missing a task order, and five payment vouchers contained task orders that were either not signed by the Cost

Center Manager or not signed by both the Cost Center Manager and the Contracting Officer.

Contract modification number three allowed for an equitable adjustment to account for the inmate population failing below a specified contract floor. FCC Beaumont miscalculated the August 2008 equitable adjustment payment to UTMB resulting in an overpayment of \$1,883.

Finally, we determined that FCC Beaumont was not always in compliance with the Prompt Payment Act. According to the BOP's Program Statement P2011.10, *Prompt Payment Act*, federal agencies are required to make payments on time, and to pay interest penalties when late. We determined that the FCC Beaumont generally paid the contractor on time, with the exception of one transaction paid four days late, resulting in \$955 in penalty interest.

These items are discussed in detail in the Findings and Recommendations section of the report. Our audit objectives, scope, and methodology appear in Appendix I.

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## INTRODUCTION

The Office of the Inspector General (OIG), Audit Division, has completed an audit of the Federal Bureau of Prisons (BOP) Contract No. DJB50211015, awarded to the University of Texas Medical Branch (UTMB). The purpose of the contract is to operate and manage health services units (HSU) at the Federal Correctional Complex in Beaumont, Texas (FCC Beaumont). An indefinite-delivery requirements contract was awarded to UTMB on July 18, 2007, and as shown below, had an estimated award amount of over \$98 million for the base year and four option years. Actual costs for the base year and the first three option years were \$66,707,293. At the time of our audit, option year 4 had not been exercised.

### EXHIBIT 1 CONTRACT PERIOD AND COSTS<sup>1</sup>

Contract Period	From	To	Estimated Cost	Actual Cost
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<b>Total</b>			<b>\$ 98,141,563</b>	<b>\$ 66,707,293</b>

Source: The medical services contract and the list of contract-related expenditures

The objectives of our audit were to determine if: (1) the solicitation process for the contract was in accordance with the BOP's policies and procedures, (2) the contractor provided the supplies and services at the cost and time agreed to in the contract, (3) payments were only made for supplies and services that were allowable and authorized, (4) the BOP and contractor submitted required reports, (5) the contractor's billing process was adequate and proper documents were provided to the BOP in support of its requests for payment, and (6) the BOP effectively monitored the contract. Additionally, a sample of source documents was reviewed at FCC Beaumont to determine if billings were adequately supported.

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<sup>1</sup> Differences between the aggregated costs and totals are due to rounding.

## **Background**

### *The Bureau of Prisons and FCC Beaumont*

The BOP was established in 1930 to provide more progressive and humane care for federal inmates, to professionalize the prison service, and to ensure consistent and centralized administration of the 11 federal prisons in operation at the time. Today, the BOP consists of 116 institutions, 6 regional offices, a Central Office (headquarters), 2 staff training centers, and 22 community corrections offices.

The BOP is responsible for the custody and care of approximately 210,000 federal offenders. Approximately 82 percent of these inmates are confined in the BOP-operated facilities. The remainder are confined in secure privately managed or community-based facilities and local jails.

FCC Beaumont houses male inmates and consists of a high security penitentiary, a medium security facility, a low security facility, and a satellite minimum security prison camp. It is identified as a Care Level II BOP facility, which is an intermediate classification on the four level scale where Care Level I represents the healthiest inmates and care level IV represents inmates with serious health issues. FCC Beaumont is located in Jefferson County, Texas, approximately four miles south of the city of Beaumont. As of July 14, 2011, the inmate population was 6,015, and was comprised of 1,531 inmates at the high security penitentiary, 1,859 at the medium security facility, 2,055 at the low security facility, and 570 at the satellite minimum security prison camp.

On July 18, 2007, the BOP awarded UTMB an indefinite-delivery requirements contract with firm fixed unit prices to provide all necessary health services within each individual HSU as well as coordinate the management of inmate inpatient care in the community as necessary. In addition, the BOP pays the contractor a man-day rate, which is the price per inmate, per day based on the actual inmate count at FCC Beaumont. Providing comprehensive health services, including the management of inmate inpatient care in the community and using a man-day rate is unique in the BOP; the medical services contract awarded to FCC Beaumont is currently the only one of its kind.

The decision to contract out all of FCC Beaumont's medical services was based on a congressional requirement. Specifically, Senate Report No. 104-139 stated that the Bureau of Prisons was to develop a plan for a health care privatization demonstration project based on a competitive procurement covering a representative sample of the federal prison

population, that is, at least one federal correctional complex. Officials at the BOP explained that because FCC Beaumont came online around the same time the senate report was issued, it was selected for the project. The contractor, UTMB has been awarded the medical services contract three consecutive times, covering the entire time period from 1996 to the present.

### *The University of Texas Medical Branch*

Established in 1891 as the University of Texas Medical Department, UTMB has grown from one building, 23 students and 13 faculty members to a modern health science center with more than 70 major buildings, more than 2,500 students and more than 1,000 faculty members. The 84-acre campus includes four schools, three institutes for advanced study, a major medical library, a network of hospitals and clinics that provide a full range of primary and specialized medical care, and numerous research facilities. The UTMB is a component of the University of Texas System. The UTMB set up a managed care system for the state of Texas approximately 17 years ago in response to a legislative mandate for managed care for the States prison system. UTMB manages 80 percent of the inmate population in the State of Texas.

### **Our Audit Approach**

The overall objective of the audit was to determine if goods and services have been administered according to contract and government requirements. In addition to reviewing the solicitation procedures for acquiring medical services, we tested compliance with what we consider to be the most important terms and conditions of the contract. Specifically, we determined if:

1. The solicitation process for the contract was in accordance with the BOP's policies and procedures.
2. The cost and timeliness of services provided by the contractor were in accordance with the contract.
3. FCC Beaumont only paid for goods and services that were allowable and authorized.
4. FCC Beaumont and UTMB submitted required reports.
5. The UTMB's billing process was adequate and it provided proper documentation to FCC Beaumont to support requests for payment.

6. FCC Beaumont effectively monitored UTMB's performance.

The results of our audit were based on interviews with essential personnel and documentation provided to us by both FCC Beaumont and the UTMB. Our review included testing of accounting and billing records from the effective date of the contract, July 18, 2007, through March 31, 2011.

## **FINDINGS AND RECOMMENDATIONS**

We found that for those items tested, UTMB generally met the terms and conditions of the contract and followed applicable laws, regulations, and guidelines with the following exceptions. UTMB did not always submit proper invoices to FCC Beaumont, of the 24 payment vouchers sampled, 3 were missing invoices and 16 contained invoices with missing or incorrect information. In addition, UTMB had not paid all of its employees the proper Wage Determination Rates. Our audit also disclosed that FCC Beaumont did not verify all portions of UTMB invoices were calculated correctly resulting in an overpayment of \$2,394. Also, six payment vouchers were not properly authorized. In addition, FCC Beaumont miscalculated the August 2008 equitable adjustment payment resulting in an overpayment of \$1,883. Finally, FCC Beaumont generally complied with the Prompt Payment Act. However, one of the 24 payment vouchers tested was late, resulting in \$955 in penalty interest. These issues, as well as other areas covered in our audit, are discussed in detail in the following sections.

### **Contract Solicitation and Award of Contract**

On July 18, 2007, the BOP awarded a contract to UTMB to provide all necessary health services within each individual HSU as well as coordinate the management of inmate inpatient care in the community as necessary. Specific provisions in the Statement of Work required that the contractor provide urgent and routine care consistent with correctional standards, while maintaining the level of quality dictated by the BOP and all applicable local, state, and federal laws and regulations.

The solicitation process used to acquire inmate medical services, and the subsequent awarding of the contract to UTMB was in accordance with the BOP's policies and procedures. The request for bids was advertised on FedBizOpps.gov as required, and the BOP officials properly received and evaluated bids in accordance with the BOP's rules and regulations.

### **Compliance with Contract Requirements**

We found that for the items we tested, UTMB generally met the terms and conditions of the contract and followed applicable laws, regulations, and guidelines with two exceptions. They did not comply with Federal Acquisition Regulation (FAR) 22.1002-2 *Wage Determinations Based on Prevailing Rates*, as described in the following paragraph, and FAR Subpart

32.905, *Payment Documentation and Process*, which is discussed in the Payment Testing – FCC Beaumont section of the report.

According to FAR 22.1002-2, contractors performing on service contracts in excess of \$2,500 shall pay their employees at least the wages found by the Department of Labor to prevail in the locality. UTMB Officials provided us with a list of its employees and their current salary information. From this information we calculated an hourly rate and compared that rate to the applicable Department of Labor Wage Determination rates and as detailed in Exhibit 3, determined not all 110 UTMB employees working at FCC Beaumont were paid the applicable Wage Determination Rates. For example, we determined that in the third option year, 4 of 110 UTMB employees were paid less than the minimum wage rate.

**EXHIBIT 2  
EMPLOYEE'S NOT PAID THE DEPARTMENT OF LABOR WAGE  
DETERMINATION RATE**

Employee No.	Minimum wage rate in Option Year 3	Employee Hourly rate
17	\$19.66	\$19.64
43	\$27.64	\$25.22
44	\$27.64	\$24.04
45	\$27.64	\$25.34

Source: OIG's analysis of Department of Labor Wage Determination rates

We recommend FCC Beaumont ensures that UTMB comply with FAR 22.1002-2 and pay its employee's in accordance with the Department of Labor's Wage Determination Rates.

**Payment Testing – FCC Beaumont**

According to FCC Beaumont officials, there are several steps in the verification of supplies and services, and in the authorization of invoice payments. These steps are as follows; the verification process begins with the task order packet. The Health Service Specialist, the equivalent of a Health Services Administrator (HSA), will put together a Request for Purchase (RP). This is done monthly and is signed off on and passed on to the Supervisory Contracting Officer who reviews the RP, signs it and generates a Purchase Order (SF-1449) from the Unified Financial Management Information System (UFMIS). The Supervisory Contracting Officer will sign the Purchase Order and pass both the RP and the Purchase Order on to the Financial Management Personnel and they fill in the

Purchase Order number and payment terms. The Purchase Order is also used to obligate the money in the Financial Management Information System (FMIS).

When the Budget Analyst staff receives the monthly BOP report of inmate man-days, the Financial Specialist at FCC Beaumont will provide the report to UTMB. UTMB then generates an invoice and sends it to FCC Beaumont. The Health Services Specialist approves the invoice and Accounting verifies it. Once the invoice has been verified, the Cost Center Manager approves the payment and the Accounting Technician verifies it is not a duplicate payment and generates the voucher validation report in FMIS. The task order documents, the request for purchase documents, the Purchase order, and the FMIS obligation reports are included with the voucher validation report and the invoice from UTMB, all of which goes to a certifying officer for approval and the Accounting Technician initiates the payment.

From the inception of the contract on July 18, 2007, through March 31, 2011 (third option year), FCC Beaumont made 50 payments to UTMB, totaling \$66,707,293.<sup>2</sup> We judgmentally selected for testing, 24 of the 50 payment vouchers, totaling \$26,664,319, or 40 percent of the total expenditures incurred through March 31, 2011. The purpose of our testing was to determine if: (1) services billed were properly approved, correctly calculated, accurately recorded in the accounting records, and allowable according to the contract; (2) receipt of services was confirmed; (3) invoices were completed in compliance with the contract and federal guidelines and invoiced amounts included supporting documentation; and (4) payments were properly approved and in compliance with the Prompt Payment Act. The testing results are discussed in the following sections.

### *Improper or Missing Invoices*

According to FAR Subpart 32.905 *Payment Documentation and Process*, payments will be based on receipt of a proper invoice and satisfactory contract performance. A proper invoice must include the following items: (1) the name and address of the contractor; (2) the invoice date and invoice number; (3) the contract number; (4) description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed; (5) shipping and payment terms; (6) name and address of contractor official to whom payment is to be sent; and a (7) name, title,

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<sup>2</sup> The contract was for a base year and, if exercised, four additional option years. The performance period for the base year through option year four would be July 18, 2007 through July 17, 2012.

phone number and mailing address of the person to notify in the event of a defective invoice.

We obtained a list of all the payments from FCC Beaumont to the University of Texas Medical Branch (UTMB) under the medical services contract. Of the 24 payment vouchers sampled, 3 were missing invoices and 16 contained improper invoices with missing or incorrect contract numbers, missing the contractor's address, or missing the contractor point of contact (POC). Missing invoices and missing invoice information could result in erroneous and improper payments. Additionally, payments not supported with invoices indicate FCC Beaumont personnel did not ensure that all the proper voucher documentation was verified prior to payment. Exhibit 4 is a summary of the improper invoice issues:

**EXHIBIT 3  
SUMMARY OF IMPROPER INVOICES**

	<b>Invoice No.</b>	<b>Missing Contract No.</b>	<b>Incorrect Contract No.</b>	<b>Missing Contractor Address</b>	<b>Missing Contractor POC</b>
1	FED08-01	X			
2	FED08-06	X			
3	FED08-11 <sup>3</sup>	X			
4	FED09-01	X		X	X
5	FED09-02		X		
6	FED09-09		X	X	X
7	FED09-12		X	X	X
8	FED10-02		X		
9	FED10-05		X		X
10	FED10-06		X		X
11	FED10-07		X	X	X
12	FED10-11A			X	X
13	FED10-11B			X	X
14	FED11-02		X		
15	FED11-04		X		X
16	FED11-06		X		X
<b>Total</b>		<b>4</b>	<b>10</b>	<b>6</b>	<b>10</b>

Source: OIG analysis of FCC Beaumont's payment records

We recommend FCC Beaumont ensure that UTMB provides proper invoices that comply with FAR Subpart 32.905 *Payment Documentation and Process*.

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<sup>3</sup> This particular invoice was comprised of invoice numbers FED08-11A and FED08-11B

## *Unauthorized Requests for Purchases*

According to the BOP Program Statement P6010.02, *Health Services Administration*, the HSA is responsible for verifying the accuracy of the invoice, including determining if the billed services were authorized and appropriate and have been completed. Additionally, according to the BOP's Program Statement P4100.04, *Bureau of Prisons Acquisition Policy*, requests for purchases and/or other prescribed forms shall be signed or initialed by a Cost Center Manager; and according to the contract, any services to be furnished under the contract shall be ordered by issuance of a task order.

During transaction testing, we identified six payment vouchers that were not properly authorized. One voucher was missing a task order, and five vouchers contained task orders that were either not signed by the Cost Center Manager or not signed by both the Cost Center Manager and the Contracting Officer.

During a portion of the contract period, the UTMB prison hospital in Galveston, Texas served the FCC Beaumont patient population for off-site inpatient and outpatient services. UTMB's monthly invoices to FCC Beaumont contained a "FBOP Daily Census" that listed the inmate's name, admission and discharge dates, and the number of days billed. The cost of inmate offsite days was calculated using the established man-day rate and billed to FCC Beaumont in the monthly invoice. However, the voucher package did not contain any supporting documentation or acknowledgement that the number of off-site inmate days was verified.

To ensure that FCC Beaumont was properly charged for off-site services, we selected the 6 payment vouchers that contained these charges, out of the 24 tested payment vouchers, and compared the inmates listed on UTMB's FBOP Daily Census report to the BOP Inmate History Reports.<sup>4</sup> We determined that the off-site days were often miscalculated, missing supporting documentation, and double charged. As a result, FCC Beaumont overpaid \$2,394.

In addition, contract modification number three allowed for an equitable adjustment to account for the inmate population falling below a minimum threshold of 5,130 for 30 consecutive days. To calculate the reimbursement owed to UTMB, FCC Beaumont took the original payment and subtracted the additional contract amount based on the 5,130 floor. However, for August 2008, FCC Beaumont did not include the cost of off-site

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<sup>4</sup> BOP Inmate History Reports contain inmates' assigned location, organized by date and time.

man-days in its original calculation; therefore, its calculation was overstated by \$1,883.

We recommend the BOP remedy the two over payments of \$2,394 and \$1,883. We also recommend FCC Beaumont comply with the BOP's Program Statement P6010.02, *Health Services Administration* and BOP Program Statement P4100.04 *Bureau of Prisons Acquisition Policy* and implement policies and procedures to ensure that all invoices and payments are properly authorized and verified.

### *Prompt Payment*

The BOP's Program Statement P2011.10, *Prompt Payment Act*, requires federal agencies to make payments on time and to pay interest penalties when payments are late. Payment to UTMB was owed 30 days after invoice receipt. We determined that FCC Beaumont generally complied with the Prompt Payment Act. Of the 24 payment vouchers tested, only one payment was late; the September 2007 payment was four days late resulting in \$955 in penalty interest.

We recommend FCC Beaumont comply with the Prompt Payment Act and remedy the \$955 in penalty interest.

### **Payment Testing – University of Texas Medical Branch**

Given the low risk associated with the use of the man-day rate, when performing transaction testing for UTMB we took the general ledger detail they provided and compared it to FCC Beaumont's list of payments to UTMB. There was one UTMB transaction in the amount of \$2,856, for speaker fees, which did not appear to fall under the contract. UTMB officials informed us that the BOP invited UTMB mental health personnel to speak at a conference and that the fee was paid by the BOP Central Washington Office and not under the contract. UTMB officials were able to provide support verifying this.

### **Required Reports**

#### *UTMB Reporting*

According to the contract, on a non-routine basis, the contractor shall submit various medical reports to the BOP. These reports may include, but will not be limited to, pharmaceutical utilization reports and pharmaceutical evaluation reports. In addition, the contractor will assign at least one medical staff member to the dining hall at each institution for the lunch

meal. The contractor will keep written records of the questions and requests resulting from the mainline attendance and provide a copy of these written records to the FCC Beaumont weekly. FCC Beaumont provided us copies of these reports and written records. Therefore, we concluded that UTMB was generally in compliance with the contract's reporting requirements.

### *The Bureau of Prisons Reporting*

According to the BOP Program Statement P4100.04, the Contracting Officer's Technical Representative shall provide written evaluations of contractor performance to the Contracting Officer, including interim reports not less than annually, and contractor progress reports not less than quarterly. Both the interim and quarterly reports were completed and submitted, by FCC Beaumont as required

### **Contractor Billing Process**

We interviewed UTMB Officials to determine how their accounting system accumulates, records, and summarize billing and cost information. On a monthly basis, FCC Beaumont provides UTMB with the BOP monthly man-day report and UTMB uses the man-day numbers on those reports to generate an invoice which is sent to FCC Beaumont. Given the unique nature of the contract, the outsourcing of 100 percent of the medical services and the use of the man-day rate, the contractor billing process does not require any of the traditional coding necessary in medical services billings.

### **Monitoring of Contractor**

While on site at FCC Beaumont, we learned UTMB medical staff work with FCC Beaumont staff on a daily basis and the FCC Beaumont staff and UTMB staff meet monthly to discuss any issues that arise. In addition, Patient Satisfaction Survey's are distributed to inmate patients on a random basis at each institution and monthly medical records audits are performed. Both the survey and the audits help FCC Beaumont ensure UTMB is providing all applicable services.

## Recommendations

We recommend that the BOP:

1. Ensure that UTMB complies with FAR 22.1002-2 and pay its employee's in accordance with the Department of Labor's Wage Determination Rates.
2. Ensure UTMB provides complete invoices that comply with FAR Subpart 32.905 *Payment Documentation and Process*.
3. Remedy the \$2,394 in over payments FCC Beaumont made to UTMB related to charges for off-site days.
4. Remedy the \$1,883 overstated equitable adjustment inmate calculation payment.
5. Comply with the BOP's Program Statement P6010.02, *Health Services Administration* and BOP Program Statement P4100.04 *Bureau of Prisons Acquisition Policy* and implement policies and procedures to ensure that all invoices and payments are properly authorized and verified.
6. Comply with the Prompt Payment Act and remedy the \$955 in penalty interest.

## APPENDIX I

### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine if: (1) the solicitation process for the contract was in accordance with the BOP policies and procedures, (2) the contractor provided the supplies and services at the cost and time agreed to in the contract, (3) payments were only made for supplies and services that were allowable and authorized, (4) the BOP and contractor submitted required reports, (5) the contractor's billing process was adequate and proper documents were provided to the BOP in support of its requests for payment, and (6) the BOP effectively monitored the contract. Additionally, a sample of source documents was reviewed at FCC Beaumont to determine if billings were adequately supported.

We conducted our audit in accordance with Government Auditing Standards and included such tests as were considered necessary to accomplish our objectives. Our audit concentrated on the inception of the contract on July 18, 2007, through March 31, 2011.

We performed sample testing for contract expenditures. In this effort, we employed a judgmental sampling design to verify that expenses incurred under the contract were accurate, complete and properly authorized. We selected a sample of 24 expenditures for Contract No. DJB50211015. This non-statistical sample design does not allow projection of the test results to the universe from which the sample was selected.

We also obtained an understanding of the contract requirements along with the contractor's controls and processes. We reviewed documents and conducted interviews at the FCC Beaumont facilities and with UTMB staff, to determine if the contractor provided services in accordance with the contract and if billed costs were accurate. Specifically, we:

- Reviewed internal controls over payments at FCC Beaumont.
- Examined a judgmental sample of 24 out of the total 50 overall transactions to review invoices and related supporting documents at FCC Beaumont.
- Reviewed internal controls over the billing processes for UTMB to ensure that the invoices received by FCC Beaumont were accurate.

In addition, we verified UTMB's invoice and payment records against FCC Beaumont to assess the accuracy of billings; however, we did not test

the reliability of the financial management system as a whole. We determined that the contractor's records were sufficiently reliable to meet the objectives of this audit.

APPENDIX II

SCHEDULE OF DOLLAR-RELATED FINDINGS<sup>5</sup>

<b>DOLLAR-RELATED FINDINGS:</b>	<b><u>AMOUNT</u></b>	<b><u>PAGE</u></b>
Over Payment of Invoices - Miscalculation of Off-Site Days	\$2,394	10
Over payment of Invoices – Equitable Adjustment Miscalculation	\$1,883	10
<b>Total Questioned Costs:</b>	<b>\$4,277</b>	
Penalty Interest for a Late Payment	\$ 955	11
<b>TOTAL DOLLAR-RELATED FINDINGS</b>	<b>\$5,232</b>	

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<sup>5</sup> Questioned Costs are monies spent that, at the time of the audit, do not comply with legal requirements, or are unsupported, unbudgeted, or are unnecessary or unreasonable. They can be recoverable or nonrecoverable.

## APPENDIX III

### BOP'S RESPONSE TO THE DRAFT REPORT

MEMORANDUM FOR DAVID M. SHEEREN  
REGIONAL AUDIT MANAGER  
DENVER REGIONAL AUDIT OFFICE

FROM: Thomas R. Kane, Acting Director

SUBJECT: Response to the Office of Inspector General's (OIG) DRAFT Report: Audit of the Federal Bureau of Prisons Medical Services Contract with the University of Texas Medical Branch Contract No. DJB50211015

The Bureau of Prisons (BOP) appreciates the opportunity to respond to the open recommendations from the draft report entitled Audit of the Federal Bureau of Prisons Medical Services Contract with the University of Texas Medical Branch (UTMB) Contract No. DJB50211015.

Please find the Bureau's response to the recommendations below:

**Recommendation 1:** "Ensure that UTMB complies with FAR 22.1002-2 and pay its employees in accordance with the Department of Labor's Wage Determination Rates."

**Response:** In accordance with FAR 22.1004 the Department of Labor has total responsibility to enforce the Service Contract Act. When Option Year No. 03, was exercised, Wage Determination No. 2005-2505, Revision No. 13 (dated 06/13/11), was incorporated into Modification No. 006. In accordance with FAR 22.1018, notification to contractor and employees, UTMB was notified of the minimum wages and fringe benefits per the wage determination. It is the responsibility of the contractor to ensure all employees are paid the minimum amount of the wage classification. When an employee is paid less than the minimum wage rate, it is the Department of Labor's responsibility to ensure the wage rate is enforced and the contractor complies. The only time when the Administrative Contracting Officer (ACO) would be involved with this type of issue would be when the effected employee notifies the ACO that he or she is not being paid the correct prevailing wage rate under the Service Contract Act. The ACO would notify the contractor of the issue. If the contractor refused to pay the rate, then this matter would be turned over to the Department of Labor for

investigation. The employees noted in the most recent OIG Audit never notified the ACO that they were not being paid the correct wage rate. Now since the ACO has been made aware of this matter, the ACO has contacted UTMB and advised them to look into the issue and provide a response of why the employees were not paid the correct rate. Therefore, we request this recommendation be closed.

**Recommendation 2:** "Ensure UTMB provides complete invoices that comply with FAR Subpart 32.905 Payment Documentation and Process."

**Response:** UTMB will be notified of all the information required to be included on a proper invoice, to comply with FAR Subpart 32.905. Financial Management staff will closely review all invoices received from UTMB. Any invoices without all necessary information will be rejected, and returned to UTMB for corrective action before payments are certified. We request this recommendation be closed.

**Recommendation 3:** "Remedy the \$2,394 in over payments FCC Beaumont made to UTMB related to charges for off-site days."<sup>6</sup>

**Response:** An account receivable will be established and UTMB will be billed \$2,394 for the overpayments related to charges for off-site days. FCC Beaumont no longer incurs any charges for off-site days. The loss of secure bed space at the UTMB prison hospital in Galveston, was due to damages caused by Hurricane Ike in September 2008. All inmates requiring outside medical care are treated at local hospitals and clinics, and they remain under the supervision of FCC Beaumont.

**Recommendation 4:** "Remedy the \$1,883 overstated equitable adjustment inmate calculation payment."

**Response:** An account receivable will be established and UTMB will be billed \$1,883 for the overpayment related to the equitable adjustment inmate calculation payment. The payment resulted from the inmate population falling below the minimum threshold of 5,130 inmates for 30 consecutive days. Since FCC Beaumont's population has been averaging approximately 5,800 inmates over the past 6 months and has continued to increase, equitable adjustment payments should not be applicable in the immediate future.

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<sup>6</sup> The OIG's draft report questioned \$2,458 for overpayments related to charges for off-site days. However, based additional information provided by officials from the University of Texas Medical Branch, the questioned amount was adjusted to \$2,394.

**Recommendation 5:** "Comply with the BOP's Program Statement P6010.02, Health Services Administration and BOP Program Statement P4100.04 Bureau of Prisons Acquisition Policy and implement policies and procedures to ensure that all invoices and payments are properly authorized and verified."

**Response:** The Health Services Specialist will verify the accuracy of each UTMB invoice, including determining if the billed services were authorized and appropriate and have been completed. Financial Management staff will ensure each payment voucher includes a task order signed by the Cost Center Manager and the Contracting Officer, as well as a proper invoice, in compliance with FAR Subpart 32.905. We request this recommendation be closed.

**Recommendation 6:** "Comply with the Prompt Payment Act and remedy the \$955 in penalty interest."

**Response:** FCC Beaumont will reimburse UTMB for the penalty interest in the amount of \$955 for the one late payment made in December 2007. The interest amount was not automatically calculated by Financial Management Information System (FMIS) and added to the original payment amount in FMIS. Therefore, UTMB did not receive the penalty amount for the late payment. A copy of the late payment voucher was forwarded to the FMIS Support Section in the Central Office for further investigation. The FMIS Support Section has determined (based on the payment voucher) the invoice was not received by FCC Beaumont until October 31, 2007. Since the payment period was 30 days, the actual pay date was November 30, 2007, one of the last two days of the month. Since Treasury does not process payments on the last two days of the month, the payment date for this invoice was pushed back to December 3, 2007. This payment was not considered late in FMIS, based on the date posted in the system that FCC Beaumont received the invoice (i.e. October 31, 2007). Consequently, no interest was calculated by FMIS and paid. Since this payment should have been disbursed on November 30, 2007, it probably should have calculated interest. We are aware of this issue and the FMIS Support Section was notified of the discrepancy. Based on the results of this inquiry, a plan of action will be implemented to prevent reoccurrence of this issue. We request this recommendation be closed.

If you have any questions regarding this response, please contact H. J. Marberry, Assistant Director, Program Review Division, at (202) 353-2302.



Executive Vice President,  
Chief Business and Finance Officer  
301 University Blvd.  
Galveston, Texas 77555-0128  
O 409.266.2006 F 409.266.2005

November 29, 2011

David M. Sheeren  
Regional Audit Manager  
Denver Regional Audit Office-OIG  
1120 Lincoln, Suite 1500  
Denver, CO 80203

Dear Mr. Sheeren:

UTMB appreciates your including us in the recent audit conducted at the FBOP Beaumont Complex. After having reviewed the draft audit report and additional analysis between our Correctional Managed Care staff and FBOP Beaumont personnel, we agree with your findings. Specifically:

1. Invoices submitted to FBOP have been modified to include all required information.
2. There was some duplication of paid man-days while offenders were admitted or discharged from Hospital Galveston and counted for also in the FBOP figures on those days. Amounts due FBOP will either be credited on a future invoice, or remitted under a separate payment to FBOP – we will coordinate the preferred action with FBOP Beaumont personnel.
3. Employee wages have been reviewed. Impacted employee salaries are being corrected going forward as well as all back wages in the process of being paid.

Regards,

A handwritten signature in black ink, appearing to read "W. Elger".

William R. Elger, *CRA*  
Executive Vice President,  
Chief Business and Finance Officer

**OFFICE OF THE INSPECTOR GENERAL  
ANALYSIS AND SUMMARY OF ACTIONS  
NECESSARY TO CLOSE THE REPORT**

The Office of the Inspector General (OIG) provided a draft of this audit report to the Bureau of Prisons (BOP) and to the University of Texas Medical Branch (UTMB). Their responses are incorporated in Appendices III and IV, respectively of this final report. The following provides the OIG analysis of the responses and a summary of actions necessary to close the report.

**Recommendation Number:**

1. **Resolved.** The BOP concurred with our recommendation to ensure that UTMB complies with FAR 22.1002-2 and pay its employees in accordance with the Department of Labor's Wage Determination Rates. The BOP stated in its response that since the Administrative Contracting Officer (ACO) has now been made aware of the fact that not all employee's have been paid in accordance with the Department of labor's Wage Determination Rates, the ACO has contacted UTMB and advised them to look into the issue and provide a response of why the employees were not paid the correct rate.

This recommendation can be closed when we receive sufficient documentation ensuring UTMB will comply with FAR 22.1002-2 and pay its employees in accordance with the Department of Labor's Wage Determination Rates, including the BOP's communication with UTMB and UTMB's response as to why employees were not paid the correct rate.

2. **Resolved.** The BOP concurred with our recommendation to ensure UTMB provides complete invoices that comply with FAR Subpart 32.95 Payment Documentation and Process. The BOP stated in its response that UTMB will be notified of all the information require to be included on a proper invoice and the Financial Management staff will closely review all invoices received from UTMB.

This recommendation can be closed when we receive documentation supporting the BOP's communication with UTMB regarding the required information on a proper invoice, as well as documentation supporting the communication with Financial Management Staff on the review

process of all invoices received from UTMB.

3. **Resolved.** The BOP concurred with our recommendation to remedy the \$2,394 in overpayments to FCC Beaumont made to UTMB related to charges for off-site days. The BOP stated in its response that an account receivable will be established and UTMB will be billed \$2,394 for the overpayments related to charges for off-site days. The BOP also stated FCC Beaumont no longer incurs any charges for off-site days.<sup>7</sup>

This recommendation can be closed when we receive documentation supporting the \$2,394 receivable and payment by UTMB.

4. **Resolved.** The BOP concurred with our recommendation to remedy the \$1,883 overstated equitable adjustment inmate calculation payment. The BOP stated in its response that an account receivable will be established and UTMB will be billed \$1,883 for the overpayment related to the equitable adjustment inmate calculation payment. The BOP also stated that since FCC Beaumont's population has been averaging approximately 5,800 inmates over the past 6 months and has continued to increase, equitable adjustment payments should not be applicable in the immediate future.

This recommendation can be closed when we receive documentation supporting the \$1,883 receivable and payment by UTMB.

5. **Resolved.** The BOP concurred with our recommendation to comply with the BOP's Program Statement P6010.02, Health Services Administration and BOP Program Statement P4100.04 Bureau of Prisons Acquisition Policy and implement policies and procedures to ensure that all invoices and payments are properly authorized and verified. The BOP stated in its response that the Health Services Specialist will verify the accuracy of each UTMB invoice, including determining if the billed services were authorized and appropriate and have been completed. Financial Management staff will ensure each payment voucher includes a task order signed by the Cost Center Manager and the Contracting Officer, as well as a proper invoice.

This recommendation can be closed when we receive documentation supporting the policies and procedures implemented in the BOP's

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<sup>7</sup> The OIG's draft report questioned \$2,458 for overpayments related to charges for off-site days. However, based on subsequent discussions with officials from the University of Texas Medical Branch, the questioned amount was adjusted to \$2,394.

response.

6. **Resolved.** The BOP concurred with our recommendation to comply with the Prompt Payment Act and remedy the \$955 in penalty interest. The BOP stated in its response that FCC Beaumont will reimburse UTMB for the penalty interest in the amount of \$955 for the late payment made in December 2007. The BOP's response also indicated that it was working with the Financial Management Information System support section to determine why the interest amount was not automatically calculated.

This recommendation can be closed when we receive documentation supporting FCC Beaumont's reimbursement to UTMB for the \$955 penalty interest.