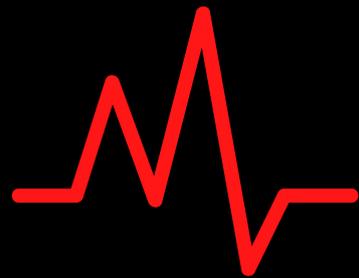


# CENTRAL HEALTH RED FLAGS REPORT

TRAVIS COUNTY COMMISSIONERS  
MUST ORDER A COMPREHENSIVE,  
INDEPENDENT PERFORMANCE AUDIT



Prepared for Health Equity  
First, a project of NAACP Austin  
and Texas LULAC District VII  
**HEALTH EQUITY FIRST**

# INTRODUCTION

Red flags serve as a warning that it is time to pay attention and act. It is time now for the Travis County Commissioners Court (TCCC) to act and order a comprehensive, independent third-party performance audit of Central Health (CH), Travis County's hospital district for the poor. Conducting an independent performance audit and reforming Central Health are crucial to achieving health equity for black and brown communities and the poor in Travis County.

Central Health today exhibits no less than eight operational and financial red flags involving it and its major partners, the Community Care Collaborative (CCC), Ascension Seton, and Dell Medical School (DMS). Central Health's deficiencies hurt Travis County's poor and communities of color the most since they disproportionately lack health coverage. They also shortchange Travis County property taxpayers, who fund CH.

**THE COMMUNITY, FOR EXAMPLE, DESERVES TO KNOW WHY IN FISCAL YEAR 2022 CH HAS RAISED ITS TAX RATE BY 6%, BUT IT HAS DECREASED HEALTH CARE SERVICES BY 34% FROM \$155.1 MILLION TO \$101.8 MILLION AND RAISED ITS CONTINGENCY RESERVES BY 243% TO \$298.78 MILLION.**

Why did CH drastically cut direct healthcare services during a pandemic? Why does CH have a 2022 contingency reserve nearly three times the size of its health care services budget? Why is CH completely overhauling now its delivery system after the CCC (CH and Ascension Seton's non-profit partnership to create a delivery system) has spent over the last ten years \$853 million? And why does CH not know how much direct health care, if any, the poor have received from Dell Medical School for \$280 million in CH funds?

A CH performance audit would be distinct from the financial audits that CH undergoes annually. A performance audit focuses on efficiency and effectiveness, whereas a financial audit determines whether the financial information of an entity is presented accurately and according to regulatory standards in its financial statements.



**“A PERFORMANCE AUDIT IS AN INDEPENDENT ASSESSMENT OF AN ENTITY'S OPERATIONS TO DETERMINE IF SPECIFIC PROGRAMS OR FUNCTIONS ARE WORKING AS INTENDED TO ACHIEVE STATED GOALS... IN GOVERNMENT, A PERFORMANCE AUDIT IS DESIGNED TO EXAMINE THE EFFICIENCY AND EFFECTIVENESS OF A PROGRAM, WITH THE GOAL OF IMPLEMENTING IMPROVEMENTS.”**



**Travis County Commissioners have express statutory authority to oversee Central Health’s finances and get answers to these red flags and questions by ordering an independent performance audit.**

*Tex. Health and Safety Code, Sections 281.049, 281.053.*

**TODAY, WE CALL ON THE COMMISSIONERS TO ORDER IMMEDIATELY A COMPREHENSIVE INDEPENDENT PERFORMANCE AUDIT. THE COMMISSIONERS NEED TO EXERCISE NOW THEIR FINANCIAL SUPERVISORY AUTHORITY OVER CH TO ENSURE THE POOR AND PEOPLE OF COLOR RESIDING IN TRAVIS COUNTY ARE RECEIVING HEALTH EQUITY, AND PROPERTY TAXPAYER FUNDS ARE BEING SPENT WISELY.**

**Ten years ago, voters approved a substantial tax increase for Central Health to provide more direct health care for the poor and to fund a “new medical school consistent with the mission of Central Health.” After ten years, it is time to evaluate whether CH has used these property tax dollars accountably and equitably for the poor’s health care and whether the medical school is operating consistent with Central Health’s mission.**

# SUMMARY

Eight Central Health red flags suggest serious financial, operational, and structural problems with CH and its partnerships with the Community Care Collaborative (CCC), Ascension Seton, and Dell Medical School. Unfortunately, there has been little public examination of these alarming problems.

The eight red flags are:

- 1. The Federal HHS Inspector General found \$83 million in impermissible provider-related payments involving the CCC.**
- 2. Ascension Seton paid a \$20 million fine for alleged provider kickbacks.**
- 3. Partners Ascension Seton and CH are in a protracted contractual and funding dispute over Seton's provision of direct health care to the poor.**
- 4. The Community Care Collaborative (CH and Seton's nonprofit partnership) has no approved budget, and CH and Seton Have discontinued their CCC annual payments.**
- 5. CH's contingency reserves have multiplied eight-fold from \$36.6 million to \$298 million in the last five years for unclear reasons. CH's contingency reserves in FY2022 are three times its health care spending.**
- 6. The Dell Medical School has received \$280 million from CH but has never produced any documentation of the specific amount and type of direct health care it has delivered for these funds. CH promised voters in 2012 "... a specific amount of the estimated \$54 million a year in new tax revenue - \$35 million - would be permanently earmarked for services provided to needy patients by the medical school's faculty and residents..." *Austin American-Statesman (October 14, 2012)*. There is no evidence that happened.**
- 7. CH purports to have low administrative costs (3%), but actually its non-health care costs appear to be at least 35%-- almost 12 times greater than CH presented to the TCCC.**
- 8. Despite repeated costly failures to establish an integrated delivery system, CH is planning major expenditures to develop a new "Equity-focused Service Delivery Plan." CH projects the cost will be \$7 million and require the addition of 20 new employees.**



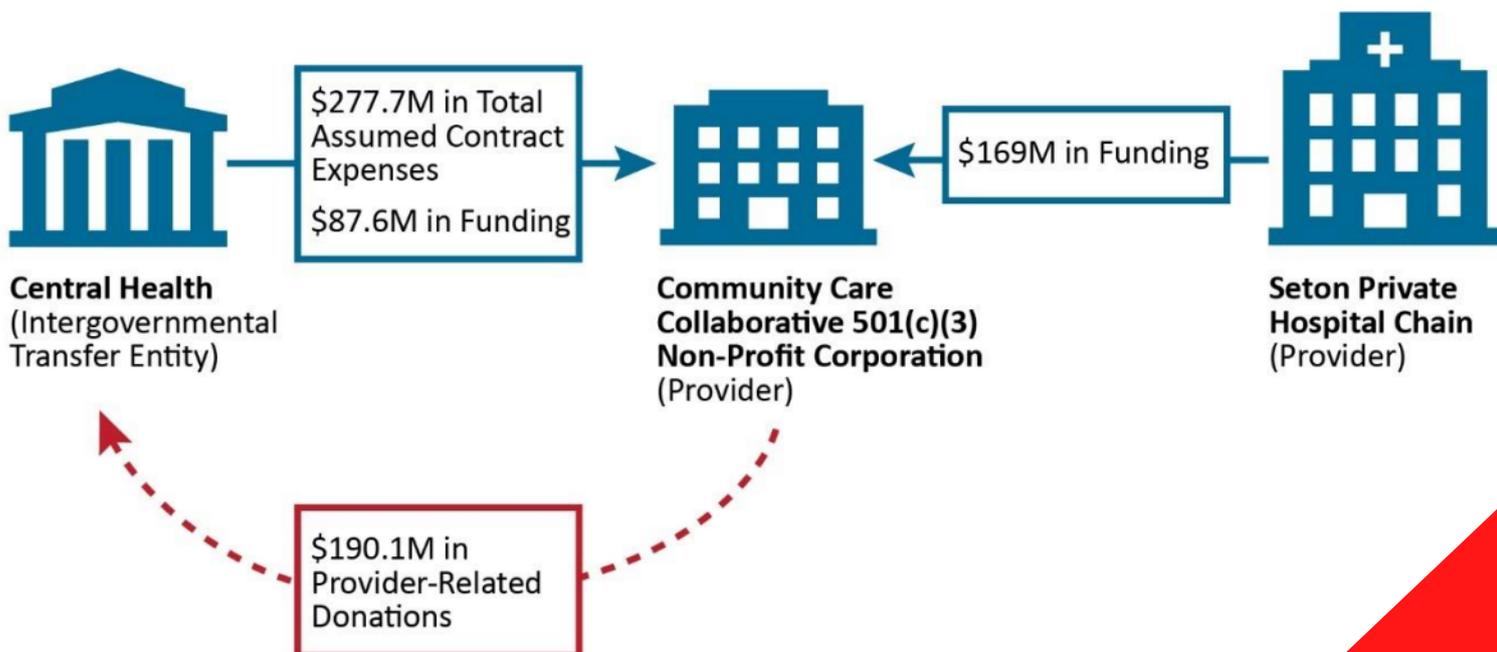
# RED FLAGS REVEALED

Below, we provide an explanation of each CH red flag and cite the sources for this information. Each red flag alone would call for an independent, third-party performance audit. Together, the eight flags signal that the Travis County Commissioners Court should exercise now their financial supervisory authority over CH to protect the county's poor and its property taxpayers.

 **\$83M** in impermissible, payments involving the CCC

The Federal Health and Human Services Office of Inspector General found in August 2020 that CH, Seton, and CCC (CH and Seton's non-profit partnership) relied on impermissible provider-related payments to fund the state's share of the Medicaid Delivery System Reform Incentive Payment (DSRIP) program: "The impermissible provider-related donations ultimately relieved the State agency of its obligation to provide its mandated share of CCC's and Seton's DSRIP Program payments. Therefore, we recommend that the Texas Health and Human Services Commission refund \$83,833,972 in Federal funds it inappropriately received..." *"Texas Relied on Impermissible Provider-Related Donations to Fund the State Share of the Medicaid Delivery System Reform Incentive Payment Program," U. S. Dept. of Health and Human Services, Office of Inspector General (August 2020), p. 9. <https://oig.hhs.gov/oas/reports/region6/61709002.pdf>.*

**The matter is on appeal.**



# RED FLAGS REVEALED



# \$20.9M

**in fines for alleged provider kickbacks**



**Ascension Seton paid \$20.9 million in fines for alleged provider kickbacks.** “Three area Ascension Texas hospitals [Dell Seton Medical Center at the University of Texas, Ascension Seton Medical Center Austin and Ascension Seton Williamson] are paying \$20.9 million in fines for paying multiple physician groups above fair market value for services.” Gates, Three Ascension Texas Hospitals to Pay \$20.9 Million in Fines for Alleged Kickbacks.

(KXAN May 13, 2021) <https://www.kxan.com/news/local/austin/3-ascension-texas-hospitals-to-pay-20-9-million-in-fines-for-alleged-kickbacks/>.

**Dell Seton Medical Center serves as the hospital for CH’s MAP patients.**



## Ongoing funding dispute over Seton’s provision of care to the poor



**Partners Ascension Seton and CH are in a protracted contractual and funding dispute over Seton’s provision of health care to the poor.** According to CH’s FY 2021 Financial Statements, p. 29, “[o]n September 3, 2020, Central Health sent a Notice of Breach to Seton that specified material breaches of the [Omnibus Services] Agreements have occurred.” [https://www.centralhealth.net/wp-content/uploads/2022/01/Travis-County-Healthcare-District-dba-Central-Health-Financial-Statements\\_9-30-2021.pdf](https://www.centralhealth.net/wp-content/uploads/2022/01/Travis-County-Healthcare-District-dba-Central-Health-Financial-Statements_9-30-2021.pdf).

**Additionally, “the funding for the fiscal year 2021 CCC budget was not agreed to by the members of the CCC, and Seton provided an impending notice to Central Health of a funding deadlock. Central Health responded that Seton did not make good faith efforts to negotiate and agree to funding of the CCC fiscal year 2021 annual budget.”** CH’s FY 2021 Financial Statements, p. 29.

**In October 2020, the parties agreed to a “standstill agreement” in an attempt to resolve their disputes through mediation. “Although both parties have been actively engaged in mediation, there is no assurance of a mutually agreeable resolution.”** CH’s FY 2021 Financial Statements, pp. 29-30. **There is no public information on the status of their dispute.**

# RED FLAGS REVEALED



## **NO APPROVED BUDGET for the Community Care Collaborative**



**THE COMMUNITY CARE COLLABORATIVE HAS NO APPROVED BUDGET, AND CH AND SETON HAVE DISCONTINUED THEIR CCC ANNUAL PAYMENTS.**

Both CH and Seton have refused to make their payments to the CCC since 2020. As a result, the CCC has not adopted a budget for two years. "The funding for the fiscal year 2021 CCC budget was not agreed to by the members of the CCC... Furthermore, funding for the fiscal year 2022 CCC budget has not been approved by the members of the CCC." *CH's FY 2021 Financial Statements, pp. 29-30.* **CCC's current activities and role, if any, are not publicly known.**

Without CH and Seton's annual payments, CCC's funding today is almost entirely based on federal Medicaid DSRIP dollars. For the last two years, 99% of CCC's revenue has been from federal DSRIP dollars. *CCC FY 2021 Financial Statements, p.4; CCC FY 2020 Financial Statements, p. 4. [https://www.centralhealth.net/wp-content/uploads/2021/02/Central-Health-Financial-Statements\\_9-30-2020.pdf](https://www.centralhealth.net/wp-content/uploads/2021/02/Central-Health-Financial-Statements_9-30-2020.pdf).*

It is not known whether the federal government will continue DSRIP funding in the future, or whether CCC will be eligible to participate. CCC's future status is unknown. *CCC FY 2021 Financial Statements, pp. 13-14.*



# RED FLAGS REVEALED



**\$298M**

**in stockpiled cash  
NOT being spent on  
care for the poor**

**CH'S CONTINGENCY RESERVES HAVE MULTIPLIED EIGHT-FOLD TO \$298 MILLION IN THE LAST FIVE YEARS FOR UNCLEAR REASONS. CH'S CONTINGENCY RESERVES ARE THREE TIMES LARGER THAN ITS HEALTH CARE SPENDING THIS FISCAL YEAR.**

**Contingency reserves "serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits."**

*CH Financial Policies, p. 1.*

<https://www.centralhealth.net/wp-content/uploads/2019/08/Central-Health-Financial-Policies.pdf>



**In FY 2017, CH had a contingency reserve of \$36.6 million, constituting 15.2% of its revenue. CH Approved FY 2017 Budget (Attachment A). Five years later, CH's contingency reserve has grown to \$298.8 million, constituting 58.9% of its revenue. CH FY 2022 Approved Budget Book, pp. 34, 40.**

<https://www.centralhealth.net/wp-content/uploads/2021/12/FY-2022-Approved-budget-book-FINAL.pdf>

**CH has been vague and guarded on why it has such a large contingency reserve. Central Health is a governmental agency funded by property taxpayers; TCCC and the public have a right to know in detail about its contingency reserves. CH FY 2022 Approved Budget Book, pp. 22, 54.**

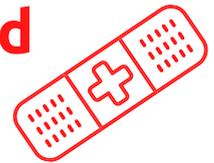


**Cash reserves  
have multiplied  
eight-fold in the  
last five years**

# RED FLAGS REVEALED

 **\$280M**

**property taxpayer funds spent with no public record of the care provided**



**Dell Medical School has received \$280 million from CH. But CH and DMS have never produced any documentation of the direct health care DMS has delivered for these property taxpayer funds.**



**THE COMMUNITY HAS BEEN ASKING FOR THIS DOCUMENTATION FOR YEARS WITH NO SUCCESS.**

**AS GOVERNMENTAL ENTITIES, CENTRAL HEALTH AND DELL MEDICAL SCHOOL OWE AN ACCOUNTING OF THESE TAXPAYER FUNDS.**

**The latest information request to DMS was on September 8, 2021. Dean Johnson presented a report on that day to Central Health's Strategic Planning Committee on DMS's general community benefits related to CH's annual \$35 million payment. A CH board member publicly asked him for detailed, specific aggregate data about the amount and type of direct health care service DMS provided the poor for CH's \$35 million annual payment. Dean Johnson promised to address these questions in writing. There is no public record that anyone from DMS ever responded.**

**Seton, CommunityUnityCare, People's Community Clinic, and all CH's other providers besides DMS supply CH with standard-industry documentation on the aggregate number of patient encounters, diagnoses, and treatments.**

*See, e.g., Central Texas Community Health Centers' (dba CommunityUnityCare) 2018 IRS Form 990, p. 13, Part III, Line 4a ("CommunityCare experienced 311, 123 medical, 18,801 behavioral health, and 51,105 dental encounters in FY 2019.").*

*[https://projects.propublica.org/nonprofits/display\\_990/550853118/10\\_2020\\_prefixes\\_52-55%2F550853118\\_201909\\_990\\_2020100817363631](https://projects.propublica.org/nonprofits/display_990/550853118/10_2020_prefixes_52-55%2F550853118_201909_990_2020100817363631)*

# RED FLAGS REVEALED

**AFTER EIGHT YEARS OF \$35 MILLION ANNUAL CH PAYMENTS AND SIX YEARS OF OPERATIONS, DMS AND CH OWE THE COMMUNITY AN ACCOUNTING OF HOW MUCH DIRECT HEALTH CARE, IF ANY, DMS HAS PROVIDED TO THE POOR IN TRAVIS COUNTY FOR \$280 MILLION IN TAXPAYER DOLLARS.**

**THE COMMUNITY ALSO NEEDS TO KNOWS WHETHER ANY DMS HEALTHCARE FOR THE POOR WAS PROVIDED EQUITABLY AND EFFICACIOUSLY.**

Even UT Health Austin, the Dell Medical School's clinical practice group, provides basic patient encounter data to CH for the \$3-4 million annually that it charges CH for women's health and orthopedic specialty care. (These DMS specialty charges are in addition to the annual \$35 million payment to DMS.) It is telling that UT Health Austin only takes CH MAP patients for these two paid-for specialty areas, and not for any other medical care needs of the poor—despite receiving \$35 million annually. According to UT Health Austin's Insurance webpage, it takes only CH patients on "CCC MAP/MAP BASIC – (limited to the Musculoskeletal Institute and Women's Health Institute.)"

<https://uthealthaustin.org/patient-resources/insurance-billing>.

**UT Austin's FY 2022 Approved Operating Budget, which includes Dell Medical School, reveals that millions in CH's funds this fiscal year are not going to direct medical care.** *UT Austin Operating Budget FY 2022, pp. G-35 – G-41.*

<https://www.utsystem.edu/sites/default/files/documents/report-state/2021/annual-operating-budget-ut-austin/aus-final-bud-07-13-2021.pdf>.

**UT Austin's 2022 Approved Operating Budget enumerates a number of specific CH-funded expenditures at the medical school that are not for direct health care services: \$800,000 for communications, \$500,000 for development, \$1.1 million for strategy and partnerships, \$1.7 million for business affairs, \$900,000 for student affairs, \$900,000 for professional education, \$900,000 for undergraduate medical education, \$900,000 for medical education, \$200,000 for the Value Institute, \$200,000 for the Design Institute, \$400,000 for health disparity studies, \$1.4 million for research, \$1.4 million for DMS facilities, and \$2.2 million for DMS technology.** *UT Austin Operating Budget FY2022, p. G-35 – G-41.* **Noticeably, UT's Operating Budget does not state how much of CH's funds are being spent on direct health care for poor residents of Travis County.**

# RED FLAGS REVEALED



# 35%

**of expenditures are not direct health care services, but administrative and operational costs**

A CH purports to have low administrative costs (3%), but it actually appears to have non-health care services costs of at least 35%-- almost 12 times greater than CH presented to the TCCC and public. This percentage appears especially high since CH serves only as a healthcare payor and not a provider, unlike Texas' other major urban hospital districts.

Central Health presents itself as a model of budget transparency and administrative efficiency. Its Fiscal Year 2022 Approved Budget booklet is 68 pages. Its budget emphasizes CH's low administrative costs: "Uses of Funds: Central Health budgets expenditures for Health Care Delivery (97.0 percent of total appropriations) and a smaller program of Administration and tax collection expense (3.0 percent of total appropriations). Health Care Delivery is the primary program." *CH 2022 Budget, p. 26*

CH also highlighted its low 3% administrative costs in its testimony on September 21, 2021, to the Travis County Commissioners Court for budget approval. CH's first substantive slide of its PowerPoint (titled "Empowering Communities with Care: FY2022 Proposed Budget") presented this pie chart with the 3% administrative figure:

This tax rate will fund expenditures of:

- Healthcare Delivery - \$491,485,796
- Administration - \$13,220,246
- Tax Collection - \$2,170,853



*CH FY 2022 Budget, p. 49 (containing the PowerPoint)*

# RED FLAGS REVEALED

**CENTRAL HEALTH SHOULD HAVE LOWER ADMINISTRATIVE COSTS THAN THE OTHER MAJOR URBAN HOSPITAL DISTRICTS BECAUSE IT SERVES ONLY AS A HEALTH CARE PAYOR AND NOT AS A CARE PROVIDER.**

CH functions differently than all of Texas' other major urban hospital districts. These other hospital districts own and manage countywide hospital and clinic systems. CH, on the other hand, serves as only a payor of health care services: direct health care services for the poor are actually delivered by third-party providers, including Ascension Seton, Community Unity Care, Integral Care, and local clinics such as People's Community Clinics. As CH explains, "Central Health is unique in that it does not own or operate a hospital but delivers care to residents through strong partnerships with key healthcare providers in the community." *CH FY 2022 Budget, p. 9.*

Functioning as only a health care payor, CH obviously has much less management and operational responsibilities than the other major hospital districts. Most of the operational and administrative expenses for health care delivery are borne by the actual health care providers. CH should have lower administrative costs and more of its funds should go directly to pay for health care services for the poor than the provider hospital districts.

An analysis, however, of the numbers behind CH's FY 2022 budget narrative reveals that CH actually has much higher administrative costs than 3%. "Health care delivery," which allegedly comprises 97% of CH's budget, actually encompasses many administrative and operational expenses that don't constitute payments for direct healthcare services. Our analysis indicates that no more than 65% of CH's payments go for direct health care, with at least 35% going to administrative and operational expenses. Turning to CH's FY 2022 Budget, it has 3 separate expenditure uses: "healthcare delivery," "administration," and "tax collection." *CH 2022 Budget, pp. 39-40.* CH classifies, as noted above, "healthcare delivery" as 97% of its revenue uses (\$491.5 million), with only 3% going to "administration" and "tax collection" (\$13.2 million and \$2.2 million respectively). *CH 2022 Budget, pp. 39-40.*

# RED FLAGS REVEALED

Healthcare administrative costs are typically defined as all items that are not direct clinical care (not actual health care for patients). According to experts at the Brookings Institution, “[a]dministrative costs are defined as the nonclinical costs of running a medical system.” Cutler, “Reducing the Administrative Costs in U.S. Healthcare,” (*Brookings Institution: Hamilton Project March 2020*), p. 4 ([https://www.hamiltonproject.org/assets/files/Cutler\\_PP\\_LO.pdf](https://www.hamiltonproject.org/assets/files/Cutler_PP_LO.pdf)).

Specifically, “[t]he label ‘administrative cost’ encompasses several different activities...The biggest financial component of administrative costs is billing- and insurance-related (BIR) expenditures. This includes the costs of a provider verifying that a patient is eligible for services, prior authorization procedures on both the provider and payer side, submitting bills and appropriate documentation, addressing denied claims, and remitting payment. Other administrative costs include marketing and enrollment (payer), credentialing costs (payer and provider), and the costs of quality measurement and assessment (both payer and provider).” Cutler, *Reducing Administrative Costs*, pp. 4-5

**CH’S BUDGET, HOWEVER, CLASSIFIES AS “HEALTHCARE DELIVERY” MANY EXPENDITURES THAT ARE NOT DIRECT HEALTH CARE SERVICES, BUT ADMINISTRATIVE AND OPERATIONAL COSTS.**

**CH’S \$491.5 MILLION IN HEALTHCARE DELIVERY USES CONTAINS FIVE SEPARATE CATEGORIES:**

- **“HEALTHCARE SERVICES” (\$101.59M)**
- **“HEALTHCARE OPERATIONS & SUPPORT” (\$56.91M)**
- **“RESERVES, APPROPRIATED USES & TRANSFERS” (\$311.33M)**
- **“DEBT SERVICE” (\$6.15M)**
- **“INTERGOVERNMENTAL TRANSFERS” (\$15.51M)**

# RED FLAGS REVEALED

Only the “health care services” category appears to use funds primarily for direct clinical care (as well as the Affordable Care Act Premium Support expense in the “health care operations and support” category, explained below). The other four “healthcare delivery” categories, however necessary, do not appear to be primarily for direct healthcare services: “reserves” do not provide current services of any kind; “healthcare operations and support” is primarily administrative and operational costs; debt service is not patient care; and intergovernmental transfers for DSRIP projects have been expended by CCC in the past for largely non-health care services.

**A.** CH “Health Care Services” Category is Only \$101.59 Million of the \$491 Million in CH “Health Care Delivery” Expenditures/Uses. CH’s budget distinguishes between “health care services” and the other “health care delivery” categories. Health care services is the only category that primarily provides direct health care, and not administrative costs, operational support, or reserves. The health care services category includes expenditure totals for direct primary care, specialty care, mental health services, pharmacies, and hospital services. *CH 2022 Budget, p. 39.*

Health care services budgeted for FY 2022 total only \$101.59 million, down from \$155.08 million in FY2021. *CH 2022 Budget, p. 39.* This is a 34.4% decrease in health care for the poor during a pandemic. (While some smaller, itemized expenditures in this category may not constitute direct health care services (collaborations, program initiatives, and reserves), the health care services category appears to consist overwhelmingly of funds for health care services).

# RED FLAGS REVEALED

**B. CH “Healthcare operations and support” (\$56.91 million) includes mostly administrative and operational costs.** Itemized expenditures for this category include travel and training, printing and copying, phones and utilities, insurance, leases and maintenance, marketing and community relations, legal, campus redevelopment, and eligibility enrollment. *CH 2022 Budget, p. 39.* These administrative expenditures total \$43.6 million. *CH 2022 Budget, p. 39.* While these expenses may be completely legitimate, they are not direct health care services, but administrative and non-clinical operational costs. Nonetheless, these expenses are not counted as administrative expenses by CH in its FY2022 budget.

One item in this category does appear to constitute chiefly revenue for health care services: the \$13.32 million for “Affordable Care Act (ACA) Healthcare Premium Assistance Programs.” *CH 2022 Budget, p. 39.* These funds pay to subsidize ACA health insurance coverage, which provides valuable direct health care services for the poor.

In its 2022 budget narrative, CH also breaks out “healthcare delivery” costs by programs in addition to by itemized expenditures (described above). Most of these program costs are predominately administrative and operational expenses, and not direct health care: “eligibility and enrollment,” “joint technology,” “clinical services and medical management,” “provider reimbursement and network services,” “quality assess[ment] and performance,” “community engagement,” “service delivery operations and PMO [project management operations],” and “RHP7, 1115 Waiver & Population Health Strategy.” These administrative program costs mirror the Brookings Institution report’s list of administrative expenses above. *See Cutler, Reducing Administrative Costs, pp. 4-5.*

## CH Healthcare Delivery Programs FY22 Proposed Budget

	ELIGIBILITY & ENROLLMENT	JOINT TECHNOLOGY	CLINICAL SERVICES & MEDICAL MANAGEMENT	PROVIDER REIMBURSEMENT & NETWORK SERVICES	HCD & WELLNESS OPERATIONS	QUALITY ASSESS & PERFORMANCE	COMMUNITY ENGAGEMENT	SERVICE DELIVERY OPERATIONS & PMO	RHP7, 1115 WAIVER, & POPULATION HEALTH STRATEGY	TOTAL
Total FY22	6,202,331	5,659,668	6,854,587	3,496,422	6,653,290	2,109,773	1,788,776	2,303,477	1,146,563	36, 214,887

*CH FY2022 Budget, p.29.*

# RED FLAGS REVEALED

**C.** The largest CH budget category “reserves, appropriated uses & transfers” (\$311.33 million) does not constitute services of any kind, much less direct health care services. This category has skyrocketed from \$125.16 million in CH’s FY 2021 Budget to \$311.33 million (a 149% increase in one year). Whether these large reserves and transfers (making up 61.4% of CH’s FY 2022 Budget) are appropriate or not, they do not constitute direct health care services to Travis County residents. The “contingency reserve appropriation” of \$298.78 million “will serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits.” *CH Financial Policies, p. 1.* What exactly these contingencies are and what the reserves will be spent on is not publicly known.

The remaining \$12.55 million for the “transfer to capital reserve” category is for capital projects, not direct health care services: “A capital reserve will be established to fund capital assets or projects that will not be funded through the issuance of debt or through a grant.” *CH Financial Policies, p. 1.* These funds are to help pay for the new clinic and administration buildings, campus redevelopment and other capital expenditures. *CH 2022 Budget, p. 31.*

**D.** CH’s health care delivery category “debt services” (\$6.15 million) is not clinical services. However necessary these debt payments are, they do not constitute direct healthcare services. *CH 2022 Budget, p. 40.*

**E.** Most CH intergovernmental transfer (IGT) funds to the CCC appear not to be for direct healthcare. The funds for CH’s budget category “intergovernmental transfers” (\$15.51 million) go to the CCC, but the CCC uses of these funds in FY2022 is not known. *CH 2022 Budget, p. 39.* We know that last fiscal year most of the CCC’s IGT funds did not go to direct health care services. The CCC’s FY2021 Financial Statements reveal that of \$61.83 million in expenses, only \$14.1 million went directly to “health care services” (22.8%). *CCC FY 2021 Financial Statements, p.4.* CCC transferred \$35 million to the University of Texas Medical School with no accounting of the direct health care services, if any, provided (56.6%). CCC also funded \$11.58 million in DSRIP projects (19.1%), but how much of those funds pay for actual health care (as opposed to operations and administration) is unknown. CCC refers to \$1.15 million of its expenses as “administration” (undefined).

# RED FLAGS REVEALED

CH's administrative costs are much higher than 3%. They appear to be at least 35%-- almost 12 times what CH presented to the TCCC at its budget approval hearing. For this fiscal year, the total amount of CH expenditures for actual activities (excluding contingency reserves and capital transfers) equals \$195.55 million. Giving CH the benefit of the doubt and treating all "healthcare services" (\$101.59 million), ACA Healthcare Premium Assistance Programs (\$13.32 million), and DSRIP Projects (\$11.58 million) as health care, CH is funding at most \$126.49 million in direct health care. That leaves no less than \$69.06 million in non-clinical expenditures. Therefore, CH's administrative costs are at least 35.32 % (\$69.06 million/\$195.55 million).

**An in-depth performance audit is necessary to know the full amount of CH's non-clinical expenses and whether they were spent efficiently and effectively. As simply a healthcare payor, CH appears to have non-healthcare expenses that not only are much higher than presented but also much higher than appropriate.**



**Despite repeated costly failures to establish an integrated healthcare delivery system, CH is planning major expenditures to develop yet another new service delivery plan**

After ten years and hundreds of millions of dollars, the CH's promised integrated delivery system appears to be ineffective, inefficient and inadequate, for CH now plans to design a new "equity-focused delivery system" at a design and planning cost of \$7 million. *CH Strategic Planning Committee(February 2022 Sessions)*. CH estimates the project will require the addition of 20 new employees.

CH made a key promise to the community ten years ago: CH, Ascension Seton and DMS would collectively establish an effective integrated health care delivery system: "[T]he [1115 Medicaid] waiver and the 10 in 10 initiative [for a new teaching hospital and medical school] offer a unique platform on which we can build a truly integrated system. To that end, the parties have entered into a letter of intent to modernize and advance our public-private partnership through the creation of an integrated delivery system. This partnership has served the community well but it must be updated to upgrade the local healthcare delivery system in order to serve the community better." *CH FY 2013 Approved Budget Executive Summary, p. 1.*

# RED FLAGS REVEALED

**In October 2012, “[t]he CCC was created to better organize and integrate the safety net population health care delivery system in Travis County...” CCC FY 2021 Financial Statements, p. 8. The primary mission of the CCC was “ to develop, implement and maintain an integrated healthcare delivery system (IDS) for the safety net population in Travis County.” CCC 2018 IRS Form 990, p.2. In June 2014, Central Health, CCC, and UT DMS took a further step and “entered into an affiliation agreement under which UT will assist Central Health and the CCC in the support of an integrated delivery system.” CCC FY 2021 Financial Statements, p. 12. Over ten years, the CCC has spent \$853.72 million (although not all on the IDS), and the DMS has received \$280 million of those funds. CCC Budgets FY2014-2021.**

**Even though CH has no experience at providing direct health care, it intends to become another provider in addition to Ascension Seton, CUC, and the numerous local community providers (as well as having the HMO Sendero).**

*CH Strategic Plan*

**Before CH spends millions of taxes on trying to create another delivery system, the TCCC would be wise to order a performance audit to know whether CH has performed effectively and efficiently in the past and to make recommendations for how CH could better effectively serve the poor in the future. Enough property taxpayer money already has been spent apparently ineffectively and inequitably, shortchanging the health care of the poor and people of color in Travis County.**

# CONCLUSION

There are eight major red flags as to CH's operations and finances. It is time now for the TCCC to order a comprehensive, independent third-party performance audit of CH and its partnerships.

This should include a performance audit to determine:

**1) HOW MUCH DIRECT HEALTHCARE, IF ANY, DELL MEDICAL SCHOOL HAS PROVIDED THE POOR FOR \$280 MILLION OF CENTRAL HEALTH PROPERTY TAXES;**

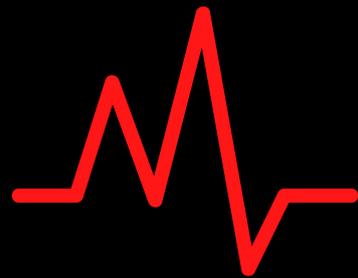
**2) WHAT PROBLEMS THE EIGHT RED FLAGS REVEAL AND RECOMMENDATIONS TO ADDRESS THEM; AND**

**3) WHY THE CCC HAS BEEN INEFFECTIVE AT ESTABLISHING AN INTEGRATED DELIVERY SYSTEM OVER THE LAST TEN YEARS. THE POOR DESERVE HEALTH EQUITY AND THAT REQUIRES AN EFFICIENT, EFFECTIVE HOSPITAL DISTRICT THAT SERVES THEIR HEALTH CARE NEEDS.**



# CENTRAL HEALTH RED FLAGS REPORT

TRAVIS COUNTY COMMISSIONERS  
MUST ORDER A COMPREHENSIVE,  
INDEPENDENT PERFORMANCE AUDIT



Prepared for Health Equity  
First, a project of NAACP Austin  
and Texas LULAC District VII  
**HEALTH EQUITY FIRST**