

ANALYSIS

Item 3: Department of Corrections 2023-25 Healthcare Billing Process Backlog

Analyst: Steve Robbins

Request: Allocate \$8,320,364 from the Emergency Fund to the Department of Corrections, Health Services; transfer \$878,298 General Fund from Correctional Services to Health Services; transfer \$88,853 General Fund from Community Corrections to Health Services; transfer \$91,570 General Fund from Capital Improvements to Health Services; and transfer \$51,147 General Fund from Community Corrections to Administrative Services, to rebalance division budgets and cover healthcare costs for the 2023-25 biennium.

Analysis: The Department of Corrections (DOC) has a constitutional mandate to provide the community standard of healthcare to adults in custody (AIC). Ninety-eight percent of medical interactions are provided inside prison facilities through clinics and infirmaries in the 12 prisons across the state. In the remaining 2% of cases, AICs require care outside of prison facilities in hospitals and other specialty clinics. DOC contracts with a vendor to negotiate rates and pay medical bills for those services incurred by providers outside of prison healthcare facilities.

Over the course of the biennium, DOC receives invoices for the payment of offsite medical care at a relatively consistent pace. However, as billing for the 2023-25 biennium came in, actual expenditures were higher than projections for the final three accounting periods by over \$9.2 million. Upon further analysis, the Department found that its approval and billing process had been building a backlog of unpaid invoices, and the Health Services Division was now over budget by \$9.2 million General Fund with the biennium already complete.

In an effort to rebalance internally, the agency utilized General Fund budget from other divisions to close the deficit from \$9.2 million to \$8.3 million. Other Funds balances were reviewed for possible fund transfers, but no options were found that could accommodate the issue. The possibility of shifting expenditures into the 2025-27 biennium was considered, and even temporarily implemented, but is not permissible as that is outside of the Oregon Accounting Manual and Governmental Accounting Standards Board (GASB) compliance.

On November 6, 2025, the Department of Administrative Services Chief Financial Office and the Legislative Fiscal Office were formally notified via a draft letter from DOC requesting assistance. State agency budgets must be balanced, and because the formal close of the accounting period for the 2023-25 biennium is December 31, 2025, the November 2025 meeting of the Emergency Board is the last opportunity to utilize funds from the general purpose Emergency Fund to backfill the agency's budget gap.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board allocate \$8,320,364 from the Emergency Fund to the Department of Corrections, Health Services; transfer \$878,298 General Fund from Correctional Services to Health Services; transfer \$88,853 General Fund from Community Corrections to Health Services; transfer \$91,570 General Fund from Capital Improvements to Health Services; and transfer \$51,147 General Fund from Community Corrections to Administrative Services, to rebalance division budgets and cover healthcare costs for the 2023-25 biennium.

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Oregon Department of Corrections
Daniel

Request: Allocate \$8,320,364 from the State Emergency Fund to support the 2023-25 Health Services Division accounting closeout for the Department of Corrections. Transfer \$1,109,868 General Fund from Correctional Services, Community Corrections, and Capital Improvements to Operations and Health Services, and Central Administration and Administrative Services for the 2023-25 Health Services Division accounting closeout.

Recommendation: Approve the request.

Discussion: The Oregon Department of Corrections (DOC) requests \$8.3 million General Fund to support unexpected closeout costs from the 2023-25 biennium. DOC reports that the Health Services Division incurred average monthly expenses of around \$3.2 million in Medical Services between July 2023 and April 2025. DOC then projected marginally higher costs for the last two months of the 2023-25 biennium and forecasted a total of \$10.6 million in additional service costs performed during 2023-25, which DOC expected to be invoiced for between July and December 2025.

However, DOC's review of internal accounting records found delays in invoice submissions and processing, leading to a significant imbalance between projected costs and actual expenses incurred by the agency. A portion of increased costs DOC incurred near the end of the 2023-25 biennium comes from the agency's efforts to provide necessary offsite healthcare for adults in custody. As a result, DOC now lacks sufficient budget to cover these additional costs, which must be paid prior to the 2023-25 closeout date of December 31, 2025.

If approved, DOC plans to utilize the General Fund in conjunction with an internal rebalance from Administrative Services, Correctional Services, Community Corrections, and Capital Improvements to Operations and Health Services and Central Administration and Administrative Services. The agency should work with the Department of Administrative Services Chief Financial Office and Legislative Fiscal Office to identify any potential savings in the 2025-27 biennial budget to offset the additional General Fund needed to close out the 2023-25 budget.

Legal Reference: Allocate \$8,320,364 from the State Emergency Fund to supplement the appropriation made by chapter 377, section 1(1), Oregon Laws 2023, for the Department of Corrections, Operations and Health Services, for the 2023-25 biennium.

Transfer of \$1,109,868 General Fund appropriation made by chapter 377, section 1, Oregon Laws 2023, for the 2023-25 biennium as follows:

<u>Subsection</u>	<u>Amount</u>
(1) Operations and Health Services	\$+1,058,721
(2) Central Administration and Administrative Services	\$+51,147
(3) Correctional Services	\$-878,298
(4) Community Corrections	\$-140,000
(6) Capital Improvements	\$-91,570



Oregon

Tina Kotek, Governor

Oregon Department of Corrections

Headquarters
3723 Fairview Industrial Drive SE 200
Salem, OR 97302



November 7, 2025

The Honorable Senator Rob Wagner, Co-Chair
The Honorable Representative Julie Fahey, Co-Chair
Emergency Board
900 Court Street NE, H-178
Salem, OR 97301

Dear Senator Wagner and Representative Fahey:

Nature of the Request

The Oregon Department of Corrections (DOC) is requesting \$8,320,364 for the 2023-25 Biennium. The Department experienced a significant increase in the processing of billings toward the end of the biennium for medical services related to offsite care for adults in custody.

Agency Action

DOC's Health Services Division had average monthly expenses of \$3,224,535 in Medical Services for July 2023 through April 2025. The month of April accounting close occurred May 16, 2025. Division expenses remained within projections at that point, and DOC projected only slightly higher costs of \$3,437,128 for May and June 2025. DOC projected \$10,602,450 for additional services performed during the 2023–25 biennium that were expected to be received and paid between July through December, also referred to as 'period 13'. DOC anticipated these projections would fully cover the last two months of the biennium, in addition to any closeout costs that the agency received during period 13.

A review of accounting records and invoices identified delays in the submission of invoices for processing, which hindered DOC's ability to accurately estimate the funding required to close the biennium. Billing increases of 128% in May and 140% in June, followed by continued high volumes of invoices into period 13 were significantly outside projections. This additional cost represents the cost of work done to address the backlog of necessary offsite healthcare for adults in custody.

These initially high invoices in May and June seemed like anomalies; at the time, we anticipated a return to normal level for period 13. It has become obvious that this is not the case, and we do not have sufficient budget savings to offset this shortfall.

To prevent future occurrences, DOC has implemented additional internal checkpoints to expedite invoice validation and processing, thereby improving both timeliness and forecasting accuracy. A weekly tracking system has also been established to monitor invoice flow, follow up on delays, and ensure comprehensive coverage of

all billing periods throughout the year. Moving forward, the Department is also increasing the use of telemedicine and bringing specialty providers into our facilities to reduce costs.

Action Requested

The Department of Corrections is requesting \$8,320,364 in General Funds for 2023-25 biennium.

Legislation Affected

Chapter 377 (2023) 1(1)	\$9,379,085
Chapter 377 (2023) 1(2)	\$ 51,147
Chapter 377 (2023) 1(3)	(\$ 878,298)
Chapter 377 (2023) 1(4)	(\$ 140,000)
Chapter 377 (2023) 1(6)	(\$ 91,570)
Total Rebalance/Request	\$8,320,364

Sincerely,



Michael Reese
Director, Oregon Department of Corrections



Heidi Steward
Deputy Director, Oregon Department of Corrections