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OFFICE OF THE INDEPENDENT INSPECTOR GENERAL

**PATRICK M. BLANCHARD**  
INSPECTOR GENERAL

69 W. Washington  
Suite 1160  
Chicago, Illinois 60602  
PHONE (312) 603-0350  
FAX (312) 603-9948

September 20, 2013

Honorable Toni Preckwinkle  
and Members of the Board of Commissioners  
of Cook County  
118 North Clark Street  
Chicago, Illinois 60602

Dr. Ramanathan Raju  
Chief Executive Officer  
Health & Hospitals System  
1900 West Polk Street, Suite 220  
Chicago, Illinois 60612

Chairman David N. Carvalho  
and Members of the Board of Directors  
Cook County Health & Hospitals System  
1900 West Polk Street, Room 211  
Chicago, Illinois 60612

Re: \$50 Million Revenue Enhancement Contract (IIG11-0035)

Dear President Preckwinkle, Dr. Raju, Chairman Carvalho and Members of the Board of Commissioners and Board of Directors:

This letter is written in accordance with the Code of Ordinances, Cook County, Illinois ch.2, art. IV, sec. 2-289(c) (2007) (the "Ordinance") in connection with a review of a \$50,000,000 revenue enhancement and performance improvement contract between Contractor A and the Cook County Health and Hospitals System ("CCHHS"). In accordance with the Ordinance, this statement is made to apprise you of the completion and results of this review.

### **Background**

In July 2010, CCHHS entered into a two year contract with Contractor A to engage in activities that were intended to add incremental revenue to CCHHS' budget. The contract also included provisions for Contractor A to provide services that were designed to produce long-term benefits for CCHHS such as supply-chain management and operational internal controls ("Performance Improvement Implementation Services"). During 2011, however, it was revealed that CCHHS was experiencing substantial cash flow problems notwithstanding Contractor A's June 2010 revenue projections that were made in connection with the revenue enhancement contract.<sup>1</sup>

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<sup>1</sup> Initially, revenue projections seemed promising in light of the general assertion that revenue enhancement must be realized before Contractor A received payment. However, this belief proved to be false because the contract was not truly a "contingent fee" based agreement because of the substantial "man hour" payments due under the contract.

We subsequently initiated a review of the circumstances involving the revenue enhancement contract. This review included the analysis of relevant vendor contracts, revenue enhancement bid documentation, budget forecasts, and actual cash flow reports related to CCHHS. Materials were also subpoenaed from the subject vendor and interviews undertaken with relevant CCHHS personnel, including senior management, Contractor A representatives and a senior official at Grady Health System located in Atlanta.<sup>2</sup>

After careful consideration of all the information, we identified a core vulnerability in Contractor A's revenue projections that forecast unattainable goals in revenue enhancement that directly influenced CCHHS' FY 2011 preliminary budget submitted to the Board of Commissioners. In this regard, we determined that senior management failed to recognize Contractor A's unsubstantiated revenue projections both at the time of contracting in June 2010 and during the preparation of the 2011 budget several months later. Furthermore, we found that senior management failed to properly supervise the contractors supporting the revenue enhancement projects. Accordingly, we offer the following findings:

- With respect to Physician Billings, Contractor A's projections formed the basis for the overly aggressive projections of \$20 million and \$18.4 million for CCHHS' 2011 and 2012 budgets that were offered without reliable information to support those figures despite the availability of a comprehensive Risk Assessment report<sup>3</sup> and the existence of obvious indicators that should have prevented reliance on the projections.
- Senior management and Contractor A failed to implement the Physician Billings project in a timely manner. CCHHS did not start to generate revenues for Physician Billings until another contractor was hired 9 months into fiscal year 2011 to supplement Contractor A's Physician Billings initiative.
- CCHHS was only able to recover approximately 2.7% (\$531,875) and 19% (\$3.6 million) of the projected Physician Billings revenue for fiscal year 2011 and 2012, respectively. The failure to meet projections was primarily due to the inability to timely credential<sup>4</sup> physicians, the lack of policies and procedures to document services provided to patients and the existence of a culture that resisted physician billing.

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<sup>2</sup> Grady is a public hospital located in Atlanta, Georgia that Contractor A referenced as an example of its capacity to achieve success with revenue enhancement services for public hospitals.

<sup>3</sup> As discussed below, Cook County spent \$1.7 million for the report that was completed in September 2009 that involved a comprehensive analysis of revenue enhancement feasibility, including physician billing.

<sup>4</sup> In order to be reimbursed for physician services, a physician must meet certain requirements by the payors (private insurers and government programs). Accordingly, CCHHS must submit applications on behalf of its physicians to obtain the proper credentials. This process is referred to as "credentialing" at CCHHS.

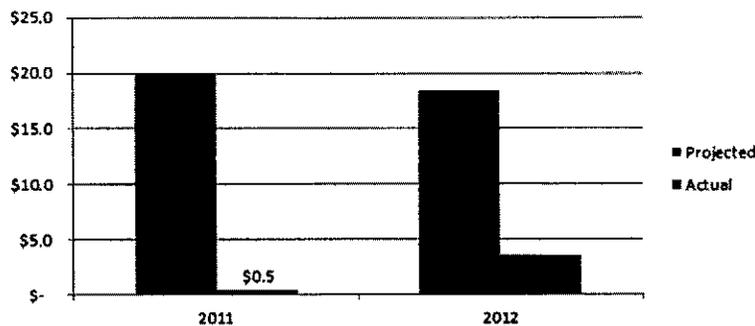
- In fiscal year (“FY”) 2013, CCHHS embarked on another major revenue generating initiative entitled the “1115 Waiver” which was projected to generate \$197 million in revenue.<sup>5</sup> CCHHS has intended to hire external contractors to assist with implementing the 1115 Waiver initiative. CCHHS faced similar challenges in 2010 with revenue generation that involved failures in planning, supervision, and available infrastructure.<sup>6</sup> In connection with the 1115 Waiver, CCHHS has generated 30% of the projected revenue through August 2013. As outlined below, we recommend that projections related to the 1115 Waiver be carefully scrutinized based upon reliable information and be subject to critical challenge.

### OIG Review

#### ***Budget Projections***

In accordance with the Code of Ordinances, Cook County, Illinois ch.2, art. IV, sec. 38-83(e) (2008), CCHHS has an obligation to submit a Preliminary Budget to the County Board that is reasonably capable of being achieved for each fiscal year. CCHHS submitted a preliminary budget to the County that included revenue projections influenced by Contractor A’s projections totaling \$70 million for the 2011 fiscal period that consisted of numerous line items. During fiscal year 2011, we learned about CCHHS’ substantial cash flow deficiency. Accordingly, we obtained CCHHS’ budget and reviewed revenue and expense projections for any significant variances. During this review, we discovered a substantial revenue shortfall related to CCHHS’ effort to achieve reimbursement/payment of services provided (“Physician Billings”) which was included in the projection provided by Contractor A. Specifically, CCHHS generated only \$531,875 or 2.7% of the projected \$20 million for Physician Billings in 2011 and 19% (\$3.6 million) of the projected amount in 2012. Physician Billings amounted to approximately 28.6% of the total \$70 million that Contractor A projected to add in incremental revenue to CCHHS’ 2011 Budget.

**Projected v. Actual Physician Billings**



<sup>5</sup> According to the Medicaid 1115 Waiver Proposal, CCHHS requested an 1115 Waiver from the Centers for Medicare and Medicaid Services (CMS) to cover the current uninsured population that will become eligible for Medicaid in 2014.

<sup>6</sup> Infrastructure problems include the appropriate personnel with specialized skills, computer information systems, and internal controls.

In order to determine whether CCHHS was reasonably capable of achieving the \$20 million projection, we contacted Contractor A to gain an understanding of Physician Billings. During our interview of Contractor A's representative, we asked questions related to the methodology for calculating the \$20 million projection<sup>7</sup> and learned that the Physician Billings projection was based on their professional judgment, public information, and a "Risk Assessment" conducted by Contractor B.<sup>8</sup> The Risk Assessment Report was completed in September 2009 at a cost of \$1.7 million.

The representative claimed that Contractor A was unable to reach its goal of generating \$20 million in incremental revenue from Physician Billings due to challenges existing at CCHHS unbeknownst to Contractor A at the time the projection was submitted to CCHHS. Since the representative asserted that the projection was based partially on Contractor B's Risk Assessment Report, we obtained the report for further analysis. We found that the Risk Assessment referred to Physician Billings as CARTS (Clinical, Administrative, Research, Teaching, and CARTS Summary). In comparisons, Contractor A's RFP referred to Physician Billings as Clinical, Administrative, Research, Teaching, and Strategic Initiatives. Accordingly, it appears that the Risk Assessment was relevant to Contractor A's Physician Billings projection.

Upon further review, we identified information contained in the Risk Assessment Report that revealed "CCHHS does not have the ability to monitor physician productivity currently." This finding was critical to the Physician Billings initiative and any revenue projection related to FY 2011. *See* Contractor B Risk Assessment Report, Sec. II, p. 9. Additionally, the Risk Assessment Report highlighted the following findings related to physician productivity:

- Data is difficult to obtain and unreliable;
- Chairs are unable to allocate physician effort by mission (i.e. teaching, administration, research);
- Position numbers are manipulated to get the desired pay, which makes the paid FTE and home business unit suspect;
- There is no single repository of practitioner information which is accurate for all CCHHS entities;
- There is no accountability for accurate registration data or clinical documentation; and
- No professional services are billed in any CCHHS entity, so there is no incentive to document accurately.

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<sup>7</sup> Contractor A initially projected \$76.4 million in Physician Billings revenues for a 2 year period though this number was downgraded after the contract was awarded.

<sup>8</sup> Contractor B's Risk Assessment was produced in September 2009. CCHHS hired Contractor B to perform a Risk Assessment that identified areas for process transformation. The process transformation is intended to foster improvements in operations and cash flow at CCHHS.

Based on Contractor B's findings, Contractor A was on notice of the challenges directly related to implementing the Physician Billings initiative. Despite these red flags, Contractor A submitted a bid for the revenue enhancement contract that projected it would produce a \$313 million total benefit which included \$76.4 million in Physician Billings that was subsequently downgraded to \$38.4 million. Contractor B and Contractor C were competing bidders and elected not to offer a revenue cycle projection in their bids. During our review, we learned from CCHHS' senior management that those involved in selecting Contractor A were concerned over the \$50 million price tag to hire Contractor A. Ultimately, CCHHS decided that the \$50 million payment was justified by the \$313 million total benefit projected by Contractor A. To simplify the matter, the critical errors in the Physician Billings projections are depicted in the diagram below.

### PHYSICIAN BILLINGS SHORTFALL



#### *Managerial Oversight*

The Chief Financial Officer held a central role in managing the Physician Billings initiative and overseeing Contractor A's activities and conducted routine revenue cycle meetings that monitored progress in accomplishing the framework necessary for Physician Billings to occur.<sup>9</sup> In connection with the \$20 million projection for Physician Billings for the 2011 fiscal year, the CFO explained that CCHHS had not implemented the appropriate policies and procedures to itemize physicians' services prior to the revenue enhancement contract. These policies and procedures were a necessary element to recovering Physician Billings funds. The CFO also explained that the projection for Physician Billings relied upon the existence of a number of different conditions including internal controls, new personnel and a computer system upgrade. During our review, our sources unanimously agreed that these matters were absolutely critical to implementing the Physician Billings initiative. However, these measures were not in place to support the Physician Billings initiative and represented obvious red flags to achieving the stated goals.

In September 2011, CCHHS hired another contractor to perform preliminary work and implement the policies and procedures for Physician Billings. We found that Contractor

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<sup>9</sup> In September 2011, Cook County enacted an important provision of the Code of Ordinances requiring the designation of a contract manager for such contracts with specific responsibilities to track, evaluate and report compliance with contract requirements. See Code of Ordinances, Cook County, Illinois ch. 2, art. IV, sec. 34-302(a).

D, the newly hired contractor, assisted CCHHS with generating approximately \$531,875 in Physician Billings for fiscal year 2011.<sup>10</sup>

CCHHS also projected to recover \$18.4 million from Physician Billings in FY 2012.<sup>11</sup> This office received statements indicating that problems with Physician Billings continued to exist when the projection was made for FY 2012 and continue to prevent CCHHS from capturing potential revenue generated by Physician Billings. Physician Billings projections for FY 2013 were projected to generate \$12 million. CCHHS has generated \$7.3 million through August 2013.

The findings of this report should also be considered in the context of developing current strategies in connection with the 1115 Waiver. CCHHS projected to generate \$197 million in FY 2013 revenues from the 1115 Waiver and will rely upon external contractors to assist with implementing the 1115 Waiver. CCHHS has generated approximately \$60 million through August 2013.

### **OIG Conclusion**

Based on our review, we believe Contractor A's unreliable projections offered during the bidding process would have been exposed through the exercise of proper due diligence on behalf of CCHHS' management and potentially changed the course of the decision making process during contractor selection. Additionally, these projections formed the basis for CCHHS' overly aggressive revenue projections that were adopted in the annual budget appropriation.

Additionally, in late 2010 and 2011, the revenue cycle meetings revealed that Physician Billings were not meeting expectations. Despite this information, CCHHS was slow to react and ultimately hired an additional contractor in August 2011 to aid in the effort. In the end, CCHHS failed to recover approximately 97% of the revenues it projected for Physician Billings in 2011 and 81% for the subsequent fiscal year 2012.<sup>12</sup>

### **OIG Recommendations**

These matters are of significant importance because CCHHS cannot be reimbursed for Physician Billings that are not properly documented and submitted on behalf of enrolled physicians. Moreover, missed budget projections have ripple effects on capital improvements, purchasing, staffing, and cash flow. In light of the facts gathered during this review, we have developed several recommendations for your consideration to assist in

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<sup>10</sup> Contractor D specializes in implementing Physician Billing programs.

<sup>11</sup> CCHHS has billed \$7 million or 38% of the \$18.4 million projected in the Fiscal Year 2012 Budget. CCHHS has collected \$3.6 million or 51% of the Physician Billings for 2012.

<sup>12</sup> Contractor D has been paid approximately \$13 million over 3 years to generate revenue of \$11.4 million in Physician Billings.

rectifying problems that may arise going forward in connection with Physician Billings and other revenue generating initiatives.

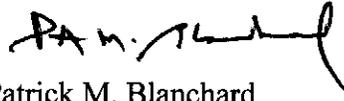
- While we believe that the Internal Audit Department within CCHHS is very professional, we recommend that consideration be given to increasing its capacity to identify operational and procedural deficiencies that create circumstances that lead to waste, mismanagement, and lost revenue.
- CCHHS should perform comprehensive due diligence to ensure that Requests for Proposals are thorough and include realistic baselines. The circumstances under review here failed to include input from a broad spectrum of CCHHS personnel with direct knowledge and experience with CCHHS' daily operations and challenges. In this regard, CCHHS may wish to form a "Contract Review Committee" comprised of representatives of various departments for the purpose of generating critical analysis that would be required as an integral part of the contracting process for large scale projects.
- Strong project management in connection with Contractor D should be applied to ensure that physicians and other personnel are fully cooperating with the implementation of physician enrollment in the Physician Billings program and subsequent adherence to the revenue generating policies that will be necessary to effectively change the culture that is resistant to billing practices within the System.
- CCHHS needs to develop a clear and concise method of presenting performance measurements to the Board of Directors and Board of Commissioners and publicize clear performance measurements in connection with Physician Billings and other services performed by external contractors in order to promote governmental transparency and accountability. Moreover, contractors should be held accountable for their failure to meet expectations, including contract termination. Pursuant to the subject contract, disputes should be referred to the Procurement Director for resolution, including mediation services. *See* General Terms Section F, Disputes and Remedies.

As discussed above, we believe these historical circumstances are particularly relevant today in light of the 1115 Waiver and hope this information proves helpful in avoiding a reoccurrence of these issues.

Finally, in accordance with Section 2-285(e) of the OIIG Ordinance, we respectfully request notification within 30 days of any action taken in response to these recommendations. Thank you for your consideration to these issues. Please do not hesitate to contact me if you have any questions regarding this or any other matter.

Hon. Toni Preckwinkle, Dr. Ramanathan Raju, Chairman David Carvalho  
and Members of the Board of Commissioners and Board of Directors  
September 20, 2013  
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Very truly yours,

A handwritten signature in black ink, appearing to read "P.M. Blanchard", with a stylized flourish at the end.

Patrick M. Blanchard  
Inspector General  
312.603.0364

cc: Ms. Letitia Close, Chief of Staff, CCHHS  
Mr. G.A. Finch, Chief of Staff, Office of the President  
Ms. Laura Lechowicz Felicione, Special Legal Counsel, office of the President  
Ms. Elizabeth Reidy, General Counsel, CCHHS