



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

July 5, 2007

Report Number: A-05-06-00042

Mr. Barry S. Maram  
Director  
Illinois Department of Healthcare and Family Services  
201 South Grand Avenue East  
Springfield, Illinois 62763-0002

Dear Mr. Maram:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Medicaid Enhanced Payments for Illinois State-Employed Physicians for April 1, 2002, through June 30, 2004." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, (5 U.S.C. § 552, as amended by Public law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-05-06-00042 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc Gustafson".

Marc Gustafson  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Department of Health and Human Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601-5519

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**MEDICAID ENHANCED  
PAYMENTS FOR ILLINOIS  
STATE-EMPLOYED PHYSICIANS  
FOR APRIL 1, 2002, THROUGH  
JUNE 30, 2004**



Daniel R. Levinson  
Inspector General

July 2007  
A-05-06-00042

# ***Office of Inspector General***

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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# *Notices*

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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program pays for medical assistance for certain individuals and families with low-income and resources. The Federal and State Governments jointly fund and administer the program. The Centers for Medicare & Medicaid Services (CMS) administers the program at the Federal level.

Each State Medicaid program is administered in accordance with its CMS-approved State plan and subsequent State plan amendments (SPAs). Pursuant to Section 1902(a)(30)(A) of the Act, a State must provide methods and procedures to assure that payments are consistent with efficiency, economy, and quality of care. CMS has approved SPAs to provide enhanced payments for services provided by physicians employed by State schools of medicine. States maintain that these facilities experience problems retaining specialized care physicians and therefore, need enhanced payments to ensure that Medicaid beneficiaries have adequate access to physician services.

The Department of Healthcare and Family Services (State agency) administers the Medicaid program in the State of Illinois. CMS approved the Illinois SPA transmittal number (TN) #02-16 regarding enhanced payments for services provided by physicians employed by the University of Illinois at Chicago College of Medicine (UIC) and the Southern Illinois University School of Medicine (SIU). The enhanced payment is calculated on a claim-by-claim basis by subtracting the standard Medicaid fee, co-payment and third party liability payments (such as Medicare, managed care organizations, or private insurance) from the cost of the physician service.

We reviewed enhanced payments of \$37,707,604 (\$18,864,303 Federal share) for services performed from April 1, 2002, through June 30, 2004. These enhanced payments totaled \$29,092,406 (\$14,547,072 Federal share) for UIC and \$8,615,198 (\$4,317,231 Federal share) for SIU.

### **OBJECTIVE**

Our objective was to determine whether the State agency made enhanced payments for services provided by physicians employed by UIC and SIU in accordance with the approved SPA and Federal regulations.

### **SUMMARY OF FINDINGS**

The State agency generally made enhanced payments for services provided by UIC and SIU physicians in accordance with its SPA and Federal regulations. However, the State agency overpaid the universities \$304,726 (\$152,363 Federal share) due to a computer program error used to calculate the enhanced payment for 8,844 claims within a portion of our audit period. The computer program error occurred on claims that had a third-party liability payment that exceeded the cost of services.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund the overpayment of \$152,363 to the Federal Government, and
- correct the computer program error that caused the overpayments and ensure that claims with third-party liability payments that exceed the cost of services do not receive a standard Medicaid fee or an enhanced payment.

## **STATE AGENCY'S COMMENTS**

In its comments on the draft report, the State agency agreed with our recommendations. The State agency stated that the programming error had already been corrected and that it was in the process of adjusting claims to refund the Federal Government \$152,363 due to the processing error. The State agency's written comments are included as the Appendix.

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## **INTRODUCTION**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program pays for medical assistance for certain individuals and families with low-income and resources. The Federal and State Governments jointly fund and administer the program. The Centers for Medicare & Medicaid Services (CMS) administers the program at the Federal level. Each State's Medicaid program is administered in accordance with its CMS-approved State plan and subsequent State plan amendments (SPAs). The Illinois Department of Healthcare and Family Services (State agency) administers the State's Medicaid program and the physician enhanced payment programs.

### **State Plan Amendments for Enhanced Payments**

CMS-approved SPAs provide enhanced payments for services provided by physicians employed by State schools of medicine. These providers often accept patients without regard for ability to pay and thus, serve a larger proportion of Medicaid beneficiaries. States maintain that enhanced payments to these providers are necessary to ensure that the facilities can retain specialized care physicians and ensure that Medicaid beneficiaries have adequate access to physician services. In addition to a standard Medicaid fee for service, providers receive an enhanced payment that is based on the relationship between the customary charges, actual costs, and payments received from Medicaid and other third party payers such as Medicare, managed care organizations, or private insurance.

### **Illinois State Plan Amendment**

On September 11, 2002, CMS approved Illinois SPA transmittal number (TN) #02-16 which authorized enhanced payments for services provided by physicians employed by government-operated entities. The SPA specifically covered services performed by physicians employed by the University of Illinois at Chicago College of Medicine (UIC) and the Southern Illinois University School of Medicine (SIU).

Prior to this amendment, the State claimed Federal reimbursement based on a portion of the cost of physician services. The SPA changed the Medicaid reimbursement rate for UIC and SIU physician services to the cost of providing the services. The cost of providing services is computed on a claim-by-claim basis, as the product of the universities' customary charges for services multiplied by the entity-specific cost-to-charge ratio. The cost-to-charge ratio is the quotient of the university's net cost incurred for physician services divided by its total charges for physician services. The enhanced payment is then calculated by subtracting the standard Medicaid fee, patient co-payments, and third party payments (such as Medicare, a managed care organization, or a private insurance company) from the university's cost. Although the SPA took effect April 1, 2002, the State agency did not submit its initial claims for enhanced payments until the quarter ended June 30, 2005.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the State agency made enhanced payments for services provided by physicians employed by UIC and SIU in accordance with the approved SPA and Federal regulations.

### **Scope**

We reviewed the State agency's enhanced payments of \$37,707,604 (\$18,864,303 Federal share) for Title XIX services performed by the universities' physicians from April 1, 2002, through June 30, 2004. These enhanced payments for physicians' services totaled \$29,092,406 (\$14,547,072 Federal share) for UIC and \$8,615,198 (\$4,317,231 Federal share) for SIU.

The objective of this review did not require an understanding or assessment of the State agency's overall internal control structure. We limited our review of internal controls to gaining an understanding of the State agency's policies and procedures for enhanced payments paid to UIC and SIU for physician services. We reviewed the universities' annual cost statements and the processes used by each university to determine the cost-to-charge ratios for the period from April 1, 2002, to June 30, 2004. We did not determine the allowability of the universities' expenditures or charges reported on the cost statements.

We performed our fieldwork at the State agency from March through September 2006.

### **Methodology**

To accomplish our audit objective, we:

- reviewed Federal laws, regulations, and other requirements governing Medicaid reimbursement for services provided by physicians employed by government-operated entities;
- reviewed the CMS-approved Illinois SPA regarding enhanced payments for services provided by physicians employed by government-operated entities;
- interviewed State agency staff to obtain an understanding of the agency's policies and procedures regarding the processing of claims with enhanced payments;
- reviewed intergovernmental and interagency agreements;
- reviewed the UIC and the SIU Annual Cost Statements and the processes used by each university to calculate the cost-to-charge ratios;
- obtained detailed payment history for services performed by physicians employed by UIC and SIU from April 1, 2002, through June 30, 2004;

- reconciled the detailed payment history data to the State agency's accounting records; and
- analyzed claim data to ensure that enhanced payment amounts were calculated in accordance with the SPA.

We conducted the audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

The State agency generally made enhanced payments for services provided by UIC and SIU physicians in accordance with its SPA and Federal regulations. However, the State agency overpaid the universities \$304,726 (\$152,363 Federal share) due to a computer program error that miscalculated enhanced physician payments for 8,844 claims, contrary to the SPA and Federal regulations. The computer program error occurred on claims that had a third party liability payment that exceeded the cost of services.

### **PROGRAM REQUIREMENTS**

The Medicaid program by law is intended to be the payer of last resort. When services are reimbursed by third parties, section 1903(d)(2)(B) of the Act considers Medicaid payments for these services to be overpayments. The State agency is required to take all reasonable measures to ascertain third party liability payments for services (Section 1902(a)(25)(A) of the Act).

Under the Illinois SPA (TN) #02-16, the State agency reimburses the universities for the costs of services on a claim-by-claim basis by using enhanced payments. The costs are computed as the product of the universities' customary charges for services multiplied by the entity-specific cost-to-charge ratio. The cost-to-charge ratio is the quotient of the university's net cost incurred for physician services divided by its total charges for physician services. The enhanced payment is then calculated by subtracting the standard Medicaid fee, patient co-payments, and third party payments from the university's cost.

### **OVERPAYMENTS FROM COMPUTER PROGRAM ERROR**

The State agency overpaid the universities \$304,726 (\$152,363 Federal share) due to a computer program error that miscalculated enhanced payments for 8,844 claims. UIC was overpaid \$105,424 (\$52,712 Federal share) for 4,600 claims and SIU was overpaid \$199,302 (\$99,651 Federal share) for 4,244 claims.

<b>Table: Computer Program Error Overpayments</b>							
	<b>Number Of Claims</b>	<b>Cost of Service</b>	<b>Standard Medicaid Fee</b>	<b>Third Party Liability Payment</b>	<b>Enhanced Payment</b>	<b>Total Over-payment</b>	<b>Federal Share</b>
UIC	4,600	\$177,422	\$ 52,712	\$244,208	\$ 52,712	\$105,424	<b>\$ 52,712</b>
SIU	4,244	218,034	99,651	468,927	99,651	199,302	<b>99,651</b>
	<b>8,844</b>	<b>\$395,456</b>	<b>\$152,363</b>	<b>\$713,134</b>	<b>\$152,363</b>	<b>\$304,726</b>	<b>\$152,363</b>

While providing supporting documentation for the universities' claims, the State determined that a computer program miscalculated enhanced payments on claims with dates of service from July 1, 2003, through June 30, 2004. The computer error occurred on claims that had a third-party liability payment that exceeded the cost of the services. The computer program erroneously calculated the enhanced payment as equal to the standard Medicaid fee amount. As a result, the universities received and the State agency improperly claimed \$304,726 (\$152,363 Federal share) in Medicaid payments (standard fees plus enhanced payments) for the 8,844 claims.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund the overpayment of \$152,363 to the Federal Government; and
- correct the computer program error that caused the overpayments and ensure that claims with third party liability payments that exceed the cost of services do not receive a standard Medicaid fee or an enhanced payment.

## **STATE AGENCY'S COMMENTS**

In its comments on the draft report, the State agency agreed with our recommendations. The State agency stated that the programming error had already been corrected and that it was in the process of adjusting claims to refund the Federal Government \$152,363 due to the processing error. The State agency's written comments are included as the Appendix.

# **APPENDIX**



Rod R. Blagojevich, Governor  
Barry S. Maram, Director

201 South Grand Avenue East  
Springfield, Illinois 62763-0002

Telephone: (217) 782-1200  
TTY: (800) 526-5812

June 27, 2007

Department of Health and Human Services  
Office of Audit Services  
Attn: Mark Gustafson, Regional Inspector General for Audit Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

Re: Draft Audit Report No. A-05-06-00042

Dear Mr. Gustafson:

Thank you for providing an opportunity to comment on your audit report entitled, "Medicaid Enhanced Payments for Illinois State Employed Physicians." We appreciate the work performed by the Office of Inspector General auditors and are pleased with your conclusion that enhanced payments for services provided by the UIC and SIU physicians were generally in accordance with the Illinois State Plan and federal regulations.

We had previously acknowledged the computer programming error in the calculation of claim adjustments and we accept both recommendations. The computer programming error has already been corrected and we are in the process of adjusting claims to refund the federal government \$152,363 due to the processing error.

Sincerely,

A handwritten signature in black ink, appearing to read 'Laura Zaremba', written over a horizontal line.

Laura Zaremba, Chief  
Office of Planning