



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Court Originated Liability Section (COLS)*  
*Medical Services Administration*  
*Department of Community Health (DCH)*

Report Number:  
391-0702-05

Released:  
March 2007

*DCH is responsible for administering the State Medicaid Plan, which includes ensuring that Medicaid is the payer of last resort. COLS's Paternity Unit identifies Medicaid costs for mothers with children not born to a marriage for recovery from the children's fathers. COLS's Casualty Unit identifies and pursues recovery of Medicaid costs from other liable parties, such as automobile, workers' compensation, general liability, and medical malpractice insurers. In fiscal year 2004-05, COLS's Medicaid cost recoveries totaled approximately \$22.4 million.*

***Audit Objective:***

To assess the effectiveness of the Paternity Unit's efforts to identify pregnancy and birthing-related Medicaid costs for recovery by other governmental agencies.

***Audit Conclusion:***

We concluded that the Paternity Unit's efforts to identify pregnancy and birthing-related Medicaid costs for recovery by other governmental agencies were not effective. We noted five material conditions (Findings 1 through 5).

***Material Conditions:***

The material conditions for this objective disclosed that the Paternity Unit either missed or may miss an opportunity for potential Medicaid cost recoveries totaling up to an estimated \$191.8 million (\$83.0 million State General Fund/general purpose funding). Our audit was intended to identify opportunities for improvement. It was not intended to develop statistical projections related to Medicaid cost recovery opportunities. Consequently, the \$191.8 million includes some estimates derived from nonstatistical testing. Because there are various factors outside the direct control of the Paternity Unit that adversely impact the recovery of pregnancy and birthing-related Medicaid costs, some amounts may never be collectible. We could not

estimate how much of the \$191.8 million could likely be recovered. Generally, collection of the pregnancy and birthing-related costs that are recoverable occurs over many years.

The Paternity Unit did not coordinate with applicable State and local offices to ensure that the Wayne County Friend of the Court requested and sought reimbursement for the pregnancy and birthing-related Medicaid costs for Wayne County recipients involved in child support actions. The Unit missed an opportunity for potential Medicaid cost recoveries totaling up to an estimated \$114.8 million. (Finding 1)

The Paternity Unit did not include some pregnancy and birthing-related Medicaid costs for mothers with nonmarital births on the reports provided to the governmental agencies involved in recovering the costs for Medicaid from the children's fathers. The Unit either missed or may miss an opportunity for potential Medicaid cost recoveries totaling up to an estimated \$28.5 million and \$16.6 million, respectively. (Finding 2)

The Paternity Unit did not have controls to ensure that it answered the requests of local prosecuting attorney (PA) and Friend of the Court (FOC) offices for selected Medicaid recipients' pregnancy and birthing-related

Medicaid costs. The Unit missed an opportunity for potential Medicaid cost recoveries totaling up to an estimated \$29.3 million. (Finding 3)

The Paternity Unit did not coordinate with the applicable State and local offices to end the practice of establishing countywide limits on the amount of court-ordered reimbursement sought for pregnancy and birthing-related Medicaid costs. The Unit missed potential Medicaid cost recoveries totaling an estimated \$2.6 million. (Finding 4)

COLS staff did not coordinate with other Revenue and Reimbursement Division staff to effectively complete the biennial internal control assessment. Also, COLS did not complete two control activities that it had committed to complete on the assessment. (Finding 5)

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**Audit Objective:**

To assess the effectiveness of the Casualty Unit's efforts to maximize the recovery of accident-related Medicaid costs from other responsible parties.

**Audit Conclusion:**

We concluded that the Casualty Unit's efforts to maximize the recovery of accident-related Medicaid costs from other responsible parties were not effective. We noted two material conditions (Findings 6 and 7) and four reportable conditions (Findings 8 through 11).

**Material Conditions:**

The material conditions for this objective disclosed that the Casualty Unit missed Medicaid cost recoveries or potential Medicaid cost recoveries totaling an estimated \$15.6 million (\$6.8 million of State General

Fund/general purpose funding). Our audit was intended to identify opportunities for improvement. It was not intended to develop statistical projections related to Medicaid cost recovery opportunities. Consequently, the \$15.6 million includes some estimates derived from nonstatistical testing. Various factors will negatively impact how much of the \$15.6 million is still recoverable.

The Casualty Unit did not use State motor vehicle and workers' compensation files to identify recipients with Medicaid costs related to injuries sustained in motor vehicle accidents or at work. The Unit missed potential Medicaid cost recoveries totaling an estimated \$10.6 million. (Finding 6)

The Casualty Unit did not have a sufficient basis for accepting partial payments from some third parties as full payment of their Medicaid liabilities. Also, the Unit did not identify some accident-related Medicaid costs for recipients when pursuing recovery from other liable third parties. The Unit missed Medicaid cost recoveries totaling an estimated \$5.0 million. (Finding 7)

**Reportable Conditions:**

Our audit also disclosed reportable conditions related to the processing of cost recovery leads, the trauma code edit system, cost recovery thresholds, and mail opening and cash controls (Findings 8 through 11).

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**Agency Response:**

Our audit report contains 11 findings and 15 corresponding recommendations. DCH's preliminary response indicated that it agrees with 13 recommendations and disagrees with 2 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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