



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

*Performance Audit*  
*Health Insurance Cost Avoidance and*  
*Recovery Section (HICARS)*  
*Medical Services Administration*  
*Department of Community Health (DCH)*

Report Number:  
391-0705-06

Released:  
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*HICARS obtains third party health insurance information for Medicaid recipients. Medicaid uses this information to cost avoid (i.e., reject) provider health care claims that are the potential liability of third party health insurance carriers (carriers). Also, HICARS uses the information to seek recovery of Medicaid costs from potentially liable carriers on a post payment basis. For fiscal year 2006-07, HICARS reported that it cost avoided health care claims totaling \$343.9 million and recovered Medicaid costs totaling \$22.6 million. Generally, 43.62% of these cost savings and recoveries accrued to the State General Fund and 56.38% accrued to the federal government.*

**Audit Objective:**

To assess the effectiveness of HICARS's efforts to timely identify carriers with liability for all or part of a recipient's health care costs and include relevant information related to the carriers in the third party liability (TPL) database.

**Audit Conclusion:**

We concluded that HICARS's efforts to timely identify carriers with liability for all or part of a recipient's health care costs and include relevant information related to the carriers in the TPL database were not effective. We noted two material conditions (Findings 1 and 2) and one reportable condition (Finding 3).

**Material Conditions:**

HICARS did not take required actions to identify or timely identify carriers that were liable to pay for health care services provided to recipients and to timely update its TPL database with relevant information related to the carriers. As a result, HICARS likely missed an opportunity for significant Medicaid cost savings. (Finding 1)

HICARS did not effectively administer a vendor contract for various TPL-related services and medical support enforcement services. As a result, HICARS paid the vendor \$5.5 million for services that were the financial responsibility of

the Department of Human Services' Office of Child Support, contributed toward the loss of \$880,000 in matching federal funds, significantly overpaid the vendor, and missed an opportunity for other Medicaid cost savings. (Finding 2)

**Reportable Condition:**

Our audit also disclosed one reportable condition related to controls over third party health insurance leads (Finding 3).

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**Audit Objective:**

To assess the effectiveness and efficiency of HICARS's efforts to timely recover Medicaid costs from liable carriers.

**Audit Conclusion:**

We concluded that HICARS's efforts to timely recover Medicaid costs from liable carriers were not effective or efficient. We noted four material conditions (Findings 4 through 7) and one reportable condition (Finding 8).

**Material Conditions:**

HICARS did not effectively monitor and timely follow up on outstanding Post Payment Recovery System (PPRS) billings. As of October 17, 2007, these billings totaled \$213.4 million that had been outstanding an average of 412 days.

HICARS had sent out follow-up billings for only \$15.2 million of these billings. (Finding 4)

HICARS did not timely follow up on some of the PPRS billing rejections that it received from a large not-for-profit carrier. Also, HICARS management did not provide effective oversight of its staff members' follow-up of these rejections. Without timely follow-up and effective management oversight, HICARS diminished its opportunity for potentially significant Medicaid cost recoveries. (Finding 5)

HICARS did not attempt to recover or timely recover some Medicaid costs that were the potential liability of Medicare or one of several other carriers. DCH records indicated that these costs totaled at least \$29.0 million. (Finding 6)

HICARS did not have controls to ensure that its Medicaid cost recovery program was efficient. As a result, HICARS used some of its limited resources to pursue recovery of Medicaid costs that were generally not reimbursable by carriers while simultaneously burdening carriers with processing unnecessary PPRS billings. (Finding 7)

**Reportable Condition:**

Our audit also disclosed one reportable condition related to recovery of costs for recipients with duplicate insurance information in the TPL database (Finding 8).

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**Audit Objective:**

To assess the effectiveness of HICARS's efforts to process suspended health care claims in a timely manner and in compliance with HICARS's written procedures.

**Audit Conclusion:**

We concluded that HICARS's efforts to process suspended health care claims in a timely manner were effective and its efforts to process suspended health care claims in compliance with HICARS's written procedures were moderately effective. We noted one reportable condition (Finding 9).

**Reportable Condition:**

Our audit disclosed one reportable condition related to controls over processing suspended health care claims (Finding 9).

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**Audit Objective:**

To assess the effectiveness of HICARS's efforts to ensure that the Medicaid claims processing system included the necessary edits to reject provider health care claims that were the liability of carriers.

**Audit Conclusion:**

We concluded that HICARS's efforts to ensure that the Medicaid claims processing system included the necessary edits to reject provider health care claims that were the liability of carriers were moderately effective. We noted one reportable condition (Finding 10).

**Reportable Condition:**

Our audit disclosed one reportable condition related to the use of TPL edits (Finding 10).

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**Agency Response:**

Our audit report contains 10 findings and 16 corresponding recommendations. DCH's preliminary response indicated that it agrees with 14 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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