MICHIGAN

OFFICE OF THE AUDITOR GENERAL

FOLLOW-UP REPORT
ON THE

COURT ORIGINATED LIABILITY SECTION

MEDICAL SERVICES ADMINISTRATION
DEPARTMENT OF COMMUNITY HEALTH

November 2011

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

391-0702-05F

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

November 10, 2011

Ms. Olga Dazzo, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Dazzo:

This is our report on our follow-up of the 7 material conditions (Findings 1 through 7) and 11 corresponding recommendations reported in the performance audit of the Court Originated Liability Section, Medical Services Administration, Department of Community Health (DCH). That audit report was issued and distributed in March 2007. Additional copies are available on request or at <http://www.audgen.michigan.gov>.

Our follow-up disclosed that DCH had complied with 7 recommendations, had partially complied with 3 recommendations, and had not complied with 1 recommendation. Reportable conditions exist related to the accuracy of Medicaid cost reports (Finding 2) and county reimbursement limits (Finding 4).

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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INTRODUCTION

This report contains the results of our follow-up of the material conditions and corresponding recommendations and the agency's preliminary response as reported in our performance audit of the Court Originated Liability Section (COLS), Medical Services Administration (MSA), Department of Community Health (DCH) (391-0702-05), which was issued and distributed in March 2007. That audit report included 7 material conditions (Findings 1 through 7) and 4 other reportable conditions.

PURPOSE OF FOLLOW-UP

The purpose of this follow-up was to determine whether DCH has taken appropriate corrective measures in response to the 7 material conditions and 11 corresponding recommendations.

BACKGROUND

DCH is responsible for administering the State Medicaid Plan in accordance with the federal Social Security Act and various federal regulations. These require state Medicaid programs to ensure that Medicaid is the payer of last resort by identifying and pursuing recovery from other liable parties. As a condition of Medicaid eligibility, individuals are required to assign to Medicaid their rights to recover medical costs paid by Medicaid. DCH's Third Party Liability Division, within MSA's Bureau of Medicaid Financial Management and Administrative Services, is charged with carrying out this administrative responsibility. COLS is one of two sections within the Third Party Liability Division. COLS is made up of the Paternity Unit and the Casualty Unit.

The Paternity Unit is responsible for identifying and reporting the pregnancy and birthing-related Medicaid costs for mothers with children not born to a marriage to the local governmental agencies responsible for recovering the costs from the children's fathers. The Casualty Unit is responsible for identifying and pursuing recovery of Medicaid costs for recipients who have been involved in accidents that are the liability of automobile, workers' compensation, general liability, and medical malpractice insurers and others.

SCOPE

Our fieldwork was performed primarily between mid-June 2011 and mid-September 2011. To determine the status of compliance with our audit recommendations, we interviewed COLS employees and reviewed applicable policies, procedures, laws, rules, regulations, and correspondence. Also, we assessed the Paternity Unit's efforts to obtain unsubmitted requests for recipients' pregnancy and birthing-related Medicaid costs from the Wayne County Friend of the Court (WCFOC). In addition, we assessed the completeness and accuracy of the pregnancy and birthing-related Medicaid costs that the Paternity Unit reported to requesting agencies. Further, we assessed the effectiveness of the Paternity Unit's controls for ensuring that it responded to all requests for recipients' pregnancy and birthing-related Medicaid costs. Also, we assessed the effectiveness of the Paternity Unit's efforts to discontinue the use of countywide limits. In addition, we reviewed the appropriateness of DCH's internal control evaluation (ICE) for COLS along with its related monitoring efforts. Further, we examined the Casualty Unit's establishment of data matches with vehicle crash and workers' compensation data and its follow-up on identified cost recovery leads. Also, we reviewed the Casualty Unit's controls for ensuring the accurate processing of cost recovery leads.

FOLLOW-UP RESULTS

EFFECTIVENESS OF THE PATERNITY UNIT'S EFFORTS TO IDENTIFY PREGNANCY AND BIRTHING-RELATED MEDICAID COSTS

RECOMMENDATION AND RESPONSE AS REPORTED IN MARCH 2007:

1. Medicaid Cost Reports for Wayne County Recipients

RECOMMENDATION

We recommend that the Paternity Unit coordinate with the Office of Child Support (OCS) within the Department of Human Services (DHS), the State Court Administrative Office (SCAO), and WCFOC to ensure that WCFOC requests and seeks reimbursement from the fathers of children not born to a marriage for the pregnancy and birthing-related Medicaid costs of Wayne County recipients involved in child support actions brought under the Paternity Act during the period November 2001 through March 2004 and under the Family Support Act (FSA).

AGENCY PRELIMINARY RESPONSE

DCH generally agrees with the recommendation that the Paternity Unit needed to improve its efforts during the audit period to coordinate with OCS, the SCAO, and WCFOC to encourage WCFOC to file requests for pregnancy and birthing-related Medicaid costs and to seek reimbursement from fathers in child support actions brought under the Paternity Act and FSA. However, DCH stated that, while Medicaid is generally required by federal regulation to be the payer of last resort, it needs to be clearly understood that all of the expenditures referenced in the finding represent legitimate expenditures made on behalf of Wayne County Medicaid eligible recipients. DCH also stated that, by the very nature of this type of expenditure, potential recoveries can only be determined and pursued after the initial expenditures have been incurred. In addition, DCH stated that, as noted by the auditors, it is impossible to accurately project a realistic amount of the Medicaid costs that can be recovered. Further, DCH stated that it also needs to be clearly understood that DCH is only responsible for providing the pregnancy and

birthing-related costs in response to the specific requests it receives and any amounts identified for potential recovery are limited to the amount ordered by the court. Also, DCH stated that it lacks the authority to directly pursue collections and does not have the resources or technical capability to measure actual collections at the recipient level or to even determine the potential for actual recovery. In addition, DCH stated that, while a substantial number of requests were not received during the audit period, recoveries were being pursued based on actions brought under the Paternity Act between November 2003 and April 2004. Further, DCH stated that, during this period, recoveries were being pursued and collected based on estimates ordered by the circuit court.

DCH stated that, as mentioned in the finding, it has been receiving and processing requests received pursuant to the Paternity Act on a regular basis since approximately April 2004. DCH also stated that, during the audit period, it had no other means available to identify cases involving Medicaid recipients who may have been involved in actions brought under the Paternity Act and FSA. In addition, DCH stated that, to address this limitation, it is attempting to develop a system that will enable it to identify and provide the information without having to wait for specific requests for information. Further, DCH stated that it has now employed the services of a contractor to respond to these requests. Also, DCH stated that it will respond to additional follow-up requests it receives from Wayne County pertaining to the time period referenced in the audit. However, DCH stated that because of the cost involved in answering these requests, DCH agrees to respond to Wayne County requests for cases for which there is a reasonable chance of collection.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

In its response, DCH stated:

> DCH is only responsible for providing the pregnancy and birthing-related costs in response to the specific requests it receives and any amounts identified for potential recovery are limited to the amount ordered by the court. DCH lacks the authority to directly pursue collections . . .

The Office of the Auditor General (OAG) agrees that DCH lacks the authority to directly pursue collection of the pregnancy and birthing-related Medicaid costs. Accordingly, and because DCH is the State agency responsible for administering Medicaid, we recommend that DCH coordinate with OCS, the SCAO, and WCFOC to ensure that WCFOC requests and seeks reimbursement from the fathers of children not born to a marriage for the pregnancy and birthing-related Medicaid costs of Wayne County recipients involved in child support actions brought under the Paternity Act during the period November 2001 through March 2004.

In its response, DCH stated:

> As noted by the auditors, it is impossible to accurately project a realistic amount of the Medicaid costs that can be recovered.

The OAG believes that by DCH complying with the recommendation and proactively coordinating with the other parties involved in the recovery process, DCH should be able to reasonably estimate potential Medicaid cost recoveries. The OAG also believes that by taking a proactive role in the Medicaid cost recovery process, DCH will substantially increase the chance of Medicaid cost recovery.

In its response, DCH stated:

> While a substantial number of requests were not received during the audit period, recoveries were being pursued based on actions brought under the Paternity Act between November 2003 and April 2004. During this period, recoveries were being pursued and collected based on estimates ordered by the circuit court.

The OAG concurs with this DCH statement and, accordingly, the $48.3 million estimate did not include missed recoveries for the period November 2003 through April 2004.

In its response, DCH stated:

> DCH will respond to additional follow-up requests it receives from Wayne County pertaining to the time period referenced in the audit.

It is the OAG's position that as the State agency responsible for administering Medicaid, DCH should help ensure that recovery of Medicaid costs is pursued. This would include DCH proactively coordinating with the necessary parties to help ensure that DCH obtains the previously unsubmitted requests from Wayne County and that recovery of the Medicaid costs is pursued.

In its response, DCH stated:

> Because of the cost involved in answering these requests, DCH agrees to respond to Wayne County requests for cases for which there is a reasonable chance of collection.

According to the terms of its vendor contract that DCH references in its response, the OAG estimates that it would cost DCH approximately $162,000 to have its vendor complete the 29,448 reports, which contain potentially recoverable Medicaid costs estimated at $114.8 million. The $162,000 estimate is based on the vendor's per record charge to complete the reports using Medicaid's electronic payment records as stated in the original contractual agreement. There would be additional costs associated with seeking recovery.

It is unclear how DCH will determine which cases will have a reasonable chance of recovery. Consequently, and because of the significant Medicaid cost recovery potential, DCH should clearly define its methodology for making these determinations in its formal response to this report, which is required by Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02.

FOLLOW-UP CONCLUSION

The Paternity Unit partially complied with the recommendation. However, a reportable condition does not exist because it is questionable whether the courts would reopen the cases related to the requests from the period November 2001 through March 2004. Specifically, our follow-up disclosed:

a. The Paternity Unit informed us that it had several undocumented discussions with WCFOC to obtain WCFOC's compliance with the recommendation. As a

result of these discussions, WCFOC sent a letter to DCH, dated April 2, 2010, which stated that, despite originally agreeing to correct the estimated pregnancy and birthing-related Medicaid costs entered for Paternity Act cases, WCFOC could no longer do so because it lacked the necessary automated processes and staffing. While WCFOC's letter addressed 1,637 (11.9%) of the 13,700 unsubmitted requests identified in the finding, it was silent regarding the other 12,063 (88.1%) unsubmitted requests. The Paternity Unit did not recognize this and, consequently, did not initiate additional contact with WCFOC about them. However, the Paternity Unit stated that it was its understanding that WCFOC could no longer follow up any of the 13,700 unsubmitted requests. At the time of our review, most of the unsubmitted requests were at least 8 years old. Given their age, it is questionable whether the courts would even reopen the cases and order reimbursement. Consequently, we do not consider this to be a reportable condition.

b. In the aforementioned letter, WCFOC indicated that, as of August 2009, it was seeking reimbursement of pregnancy and birthing-related Medicaid costs for FSA cases. To verify the accuracy of WCFOC's statement, we traced selected requests submitted by WCFOC to DHS's electronic child support system and noted that many of the requests were related to child support cases brought under FSA. Consequently, we determined that COLS complied with this part of the recommendation.

RECOMMENDATIONS AND RESPONSE AS REPORTED IN MARCH 2007:

2. Accuracy of Medicaid Cost Reports

RECOMMENDATIONS

We recommend that the Paternity Unit implement measures to ensure that it includes all 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.

We also recommend that the Paternity Unit amend previously submitted inaccurate reports to include all omitted pregnancy and birthing-related costs.

AGENCY PRELIMINARY RESPONSE

DCH agrees with the first recommendation and, while agreeing in principle with the second recommendation, stated that it does not intend to devote scarce resources to a project for which it lacks the information, such as the court's willingness to amend orders, and technical capability to determine whether it would be cost-effective to amend previously submitted reports that contained incomplete information. DCH stated that this is particularly true in light of the many factors that influence the recovery potential for pregnancy and birthing-related Medicaid expenditures and the difficulty in estimating a recoverable amount, as noted by the auditors. DCH also stated that DCH has hired a contractor to generate reports in response to requests for pregnancy and birthing-related expenses. DCH stated that, because of the cost involved in generating these reports and based on the uncertainty surrounding the collectivity of any additional amounts, DCH does not intend to amend previously submitted incomplete reports without being able to determine if such an endeavor would be cost-effective.

DCH stated that it has implemented corrective measures that include all pregnancy and birthing-related Medicaid costs for mothers with nonmarital births on the reports provided to the governmental agencies involved in recovering Medicaid costs from the children's fathers. Also, DCH stated that, in December 2005, it established new formulas for gathering pregnancy and birthing-related Medicaid expenditures that incorporate the maternity case rate and pharmaceutical product costs, when applicable. In addition, DCH stated that payments made to maternal support services providers are now included, when appropriate. Further, DCH stated that it has also changed its practice and has begun using a 90-day postdelivery end date for gathering postpartum care costs.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

In its response, DCH stated:

> DCH . . . does not intend to devote scarce resources to a project for which it lacks the information, such as the court's willingness to amend orders, and technical capability to determine whether it would be cost-effective to amend previously submitted reports that contained incomplete information. . . . DCH has hired a

> contractor to generate reports in response to requests for pregnancy and birthing-related expenses. Because of the cost involved in generating these reports and based on the uncertainty surrounding the collectivity of any additional amounts, DCH does not intend to amend previously submitted incomplete reports without being able to determine if such an endeavor would be cost-effective.

The OAG believes that DCH should attempt to obtain the necessary information that will allow DCH to assess the cost-effectiveness of amending the inaccurate reports. As part of the assessment, DCH should consider its cost to amend the necessary reports. According to the terms of its vendor contract that DCH references in its response, the OAG estimates that it would cost DCH approximately $47,000 to have its vendor amend the 8,559 reports to include additional potentially recoverable Medicaid costs totaling approximately $23.0 million. The $47,000 estimate is based on the vendor's per record charge to complete the reports using Medicaid's electronic payment records as stated in the original contractual agreement. There would be additional costs associated with seeking recovery.

FOLLOW-UP CONCLUSION

The Paternity Unit partially complied with the first recommendation but did not comply with the second recommendation. A reportable condition exists.

On October 1, 2008, MSA began requiring most pregnant women with new Medicaid eligibility to enroll in one of Medicaid's contracted managed care health plans. DCH informed us that enrollment in a managed care health plan generally took two to three months to complete, during which time the women received services on a fee-for-service basis. Also on October 1, 2008, DCH carved out Maternal Infant Health Program (MIHP) services (which include services previously known as maternal support services) from its managed care contracts and began paying for these services on a fee-for-service basis.

Generally, when a Medicaid recipient gave birth, Medicaid made a single actuarially based maternity case rate (MCR) payment to the recipient's managed care health plan. According to DCH, the MCR payment covered all of the reasonable and necessary expenses associated with the recipient's pregnancy and related birth. As such, the Paternity Unit generally reported the MCR payment, or a close approximation of the MCR payment, to local prosecuting attorney (PA) or Friend of the Court (FOC) offices as the full cost to Medicaid for a recipient's pregnancy and birth. However, the Paternity Unit did not identify Medicaid fee-for-service payments for pregnancy and birthing-related products and services delivered prior to the effective date of the recipient's enrollment in a managed care health plan or for MIHP services delivered throughout the recipient's pregnancy and related birth and report them to local PA or FOC offices. Notwithstanding, the MCR payments generally represented the overwhelming majority of recipients' pregnancy and birthing-related Medicaid costs.

We reviewed Medicaid's payment records for 10 recipients with pregnancy and birthing-related Medicaid costs totaling $52,109. We noted that the Paternity Unit did not report Medicaid costs totaling $2,708 for recipients who received MIHP or other pregnancy and birthing-related services that Medicaid funded on a fee-for-service basis. We also noted that, for 2 recipients, the Paternity Unit reported the MCR payment that Medicaid would have made if the recipients had been enrolled in a managed care health plan. We compared these reported costs to the recipients' actual fee-for-service pregnancy and birthing-related Medicaid costs and noted that COLS overstated the reported costs for the recipients by $532 and $6,183. The Paternity Unit informed us that, starting in June 2010, DHS required the Paternity Unit to provide recipients' pregnancy and birthing-related Medicaid costs within 28 days of receiving a request for the costs from local PA and FOC offices. The Paternity Unit stated that, at the time it reported the pregnancy and birthing related costs for the 2 recipients, it could not be sure that Medicaid had received and paid all applicable service providers' pregnancy and birthing-related billings. Consequently, it reported the MCR information. However, the Paternity Unit did not have a process to later identify and correct these and similar reports that were materially inaccurate.

As noted in the original finding, the recovery of Medicaid costs is subject to various factors that are outside the direct control of the Paternity Unit and Medicaid. Because of this, it is not possible to determine the financial impact of the Paternity Unit's inaccurate reporting on its Medicaid recoveries or the pregnancy and birthing-related Medicaid costs charged to absent fathers. However, with the June 9, 2008 implementation of a standardized formula for calculating confinement obligations (i.e., the dollar amount of an unwed mother's pregnancy and birthing-related Medicaid costs to be charged to the child's father), the dollar amount of Medicaid costs that the courts can order absent fathers to repay will, in most cases, be significantly less than during our original audit.

As noted in its preliminary response to the second recommendation, the Paternity Unit did not amend previously submitted but incomplete reports because it lacked the necessary information to determine whether it would be a cost-effective endeavor.

RECOMMENDATIONS AND RESPONSE AS REPORTED IN MARCH 2007:

3. Processing of Requests for Medicaid Costs

RECOMMENDATIONS

We recommend that the Paternity Unit implement controls to ensure that it answers the requests of local PA or FOC offices for selected Medicaid recipients' pregnancy and birthing-related Medicaid costs.

We also recommend that the Paternity Unit answer the previously unanswered requests.

AGENCY PRELIMINARY RESPONSE

DCH agrees with the first recommendation and stated that, while in agreement with the finding that the paternity database indicated that there were unanswered requests, DCH does not have the resources or ability to identify cost information dating back nearly 18 years as outlined in the second recommendation. Also, DCH

stated that most of the pregnancy and birthing-related cost information could only be retrieved manually, if at all, which makes undertaking such a task administratively impossible. In addition, DCH stated that, because potential recovery is limited to an amount determined through the courts and potential recovery, as noted by the auditors, cannot be reasonably estimated, DCH is not willing to incur the additional cost that would be required in an attempt to honor these requests when there is no expectation that such an exercise would be cost-effective.

DCH stated that it has taken steps to ensure that all current requests are processed. Also, DCH stated that, in December 2005, DCH implemented the Paternity and Casualty Recovery System (PCRS) that provides the Paternity Unit with the ability to track and report on all pregnancy and birthing-related expenditure requests. In addition, DCH stated that, in an effort to improve a process that clearly has limitations, it is attempting to develop a system that will enable it to identify and provide FOC offices with pregnancy and birthing-related cost information involving Medicaid recipients, without having to wait for specific requests for information. However, DCH stated that, even if it is successful in developing such a system, it will still have no reliable means to estimate how much of these expenditures can ultimately be recovered.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

In its response, DCH stated:

> DCH does not have the resources or ability to identify cost information dating back nearly 18 years as outlined in the second recommendation. Most of the pregnancy and birthing-related cost information could only be retrieved manually, if at all, which makes undertaking such a task administratively impossible.

The OAG noted that DCH has electronic records of Medicaid cost information for the most recently completed six-year period and microfiche records for prior periods dating back to at least January 1985. The availability of this information should allow for the completion of most of the unanswered requests.

In its response, DCH stated:

> Because potential recovery is limited to an amount determined through the courts and potential recovery, as noted by the auditors, cannot be reasonably estimated, DCH is not willing to incur the additional cost that would be required in an attempt to honor these requests when there is no expectation that such an exercise would be cost-effective.

Although the finding states that, because of various factors, the OAG could not estimate how much of the $29.3 million could likely be recovered, the OAG believes that by proactively working with the other parties involved in the recovery process, DCH should be able to assess the cost-effectiveness of completing the requested reports. The OAG also believes that, by taking a proactive role in the Medicaid cost recovery process, DCH will substantially increase its chance of Medicaid cost recovery.

According to the terms of its vendor contract that DCH cited in responses to Findings 1 and 2, the OAG estimates that it would cost DCH up to approximately $159,000 to have its vendor complete the 8,827 requested reports, which would contain potentially recoverable Medicaid costs estimated at $29.3 million. The $159,000 estimate is based on the vendor's per record charge to complete the reports using Medicaid's microfiche payment records as stated in the original contractual agreement. There would be additional costs associated with seeking recovery.

FOLLOW-UP CONCLUSION

The Paternity Unit complied with both recommendations.

In February 2010, the Paternity Unit established a query to identify unprocessed birthing expense requests (BERs) (requests for individuals' pregnancy and birthing-related Medicaid costs). The Paternity Unit informed us that it ran the query weekly and promptly reviewed the unprocessed BERs to ensure that it responded to all BERs within 28 days of receipt, as required by DHS policy. To determine if this process was working as intended, we reviewed the August 4, 2011

query and noted that there were no unanswered BERs that were more than 28 days old. Consequently, we concluded that the Paternity Unit's control was effective.

In July 2010, the Paternity Unit identified 23,647 pre-2006 BERs that did not appear to be processed. The BERs were brought into PCRS in 2005 from PCRS's predecessor system. The Paternity Unit and its PCRS vendor analyzed these BERs and classified them into several different categories. The Paternity Unit then reviewed 100% of the BERs in some categories and tested a significant number of BERs in others. The Paternity Unit informed us that, when it did not identify a sufficient number of valid unprocessed BERs in a category, it discontinued its review of additional BERs in that category because it was not cost-effective to continue reviewing them.

RECOMMENDATION AND RESPONSE AS REPORTED IN MARCH 2007:

4. County Reimbursement Limits

RECOMMENDATION

We recommend that the Paternity Unit coordinate with OCS, the SCAO, and the PA and/or FOC offices in 51 counties to end the practice of establishing countywide limits on the amount of court-ordered reimbursement sought from the fathers of children not born to a marriage for the mothers' pregnancy and birthing-related Medicaid costs.

AGENCY PRELIMINARY RESPONSE

DCH agrees with the finding that it did not make a concerted effort to have these county-imposed limits eliminated and agrees with the recommendation to the extent that it is willing to work with local governmental agencies to end this practice. However, DCH does not agree with the inference that it may not be in compliance with the general federal regulatory requirements that Medicaid must be the payer of last resort. By the very nature of this type of expenditure, potential recoveries can only be determined and pursued after the initial and appropriate expenditure has been incurred. Without direct statutory authority, it is just not

possible for DCH to satisfy the regulatory criteria referenced in the finding. Nevertheless, DCH will work with appropriate State and local agencies to attempt to develop a solution to the use of countywide limits. It should be noted that, even if the practice of using countywide limits is discontinued, this will not necessarily result in increased court-ordered reimbursement or potential recoveries, because of the allowance of judicial discretion.

FOLLOW-UP CONCLUSION

The Paternity Unit partially complied with the recommendation. However, a reportable condition exists.

OCS developed a standardized confinement obligation formula. The development and use of a standardized formula meeting various criteria was necessary to ensure that the confinement obligations were enforceable under the Title IV-D Child Support Program. Because the formula did not include the use of countywide limits, it, in effect, precluded their use. DHS incorporated the new formula into Michigan IV-D Action Transmittal (AT) 2008-24, dated June 3, 2008, which it directed to all FOC, PA, and OCS staff. The AT stated that any confinement obligations issued after June 9, 2008 that did not follow the formula, or allowed deviations to the formula, were not considered Title IV-D enforceable debt.

COLS informed us that, after DHS issued the AT, COLS did not attempt to determine if the 51 counties that had previously established countywide limits had discontinued using them. We reviewed confinement orders established by 6 counties after June 9, 2008 and noted that 1 (16.7%) county was still using a countywide limit. After bringing this to COLS's attention, COLS informed us that it too had just noted that the county in question and another county were still using countywide limits. COLS reported the counties to OCS for follow-up.

We conducted a limited review of confinement orders from the two identified counties that were still using countywide limits and determined that the counties were applying their countywide limits differently. One county appeared to incorporate its countywide limit into a hybrid version of DHS's standardized confinement obligation formula, which did not appear to consider the fathers' ability to pay. The other county appeared to disregard the standardized confinement

obligation formula altogether and instead charged fathers for the full amount of Medicaid's pregnancy and birthing-related costs up to the countywide limit. Because the standardized confinement obligation formula takes into account the fathers' ability to pay and other factors, it is likely that the use of the countywide limit caused the fathers' actual confinement obligations to be overstated. In either case, the counties' failure to calculate fathers' confinement obligations using the standardized confinement obligation formula could affect DCH's ability to recover these Medicaid costs.

RECOMMENDATIONS AND RESPONSE AS REPORTED IN MARCH 2007:

5. Biennial Internal Control Assessment

RECOMMENDATIONS

We recommend that COLS staff coordinate with other Revenue and Reimbursement Division staff to effectively complete the biennial internal control assessment.

We also recommend that COLS complete all control activities that it has committed to complete on the biennial internal control assessment.

AGENCY PRELIMINARY RESPONSE

DCH agrees with both recommendations and stated that it will have COLS staff coordinate with other Revenue and Reimbursement Division staff to effectively complete the biennial internal control assessment and to complete all control activities that it has committed to complete.

For the 2006 assessment, DCH stated that it changed its assessment format, added new features to the assessment work sheet, performed more thorough departmentwide training for managers, and will conduct a much more thorough review of the completed assessment work sheets to ensure that risks have been adequately identified and evaluated.

FOLLOW-UP CONCLUSION

COLS complied with both recommendations.

In the 2010 internal control evaluation (formerly known as the biennial internal control assessment), COLS identified the Paternity and Casualty Units' major operational risks, control activities for minimizing these risks, and monitoring mechanisms for ensuring that the control activities were effective. Also, DCH identified the material audit findings noted in our March 2007 COLS audit report, together with related control activities and monitoring mechanisms. We determined that the identified risks and material weaknesses encompassed COLS's major functions and that the control activities were appropriately designed to minimize the cited risks. We also determined that DCH had implemented the selected monitoring activities that we reviewed.

EFFECTIVENESS OF THE CASUALTY UNIT'S EFFORTS TO MAXIMIZE RECOVERY OF ACCIDENT-RELATED MEDICAID COSTS

RECOMMENDATION AND RESPONSE AS REPORTED IN MARCH 2007:

6. Use of State Motor Vehicle and Workers' Compensation Files

RECOMMENDATION

We recommend that the Casualty Unit 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.

AGENCY PRELIMINARY RESPONSE

DCH agrees with the finding and recommendation. DCH stated that it is using PCRS to perform matches against the State motor vehicle (CRASH) and workers' compensation (WORCS) files and is developing protocols for its contractor to use in processing matches identified by PCRS.

FOLLOW-UP CONCLUSION

The Casualty Unit complied with the recommendation.

In February 2006, the Casualty Unit began matching Medicaid recipient information with the Michigan Department of State Police's Traffic Crash Reporting System (TCRS) and the Department of Licensing and Regulatory Affairs' workers' compensation claim data to identify recipients who may have been injured in a traffic accident or at work and received Medicaid-funded services to treat their injuries. DCH policy required weekly matches with these data sources. Nevertheless, we noted several extended periods when the Casualty Unit did not conduct these matches because of the implementation of DCH's new Medicaid payment system. However, the large volume of cost recovery leads identified by the matches completed immediately after these periods appropriately covered the skipped periods.

The Casualty Unit processed the cost recovery leads involving disputed workers' compensation cases. DCH contracted with a vendor to process the cost recovery leads involving nondisputed workers' compensation cases and cost recovery leads generated from the matches with TCRS. The Casualty Unit stated that, since it started conducting the matches and following up the identified cost recovery leads, it has recovered approximately $2.8 million.

RECOMMENDATIONS AND RESPONSE AS REPORTED IN MARCH 2007:

7. Processing of Cost Recovery Cases

RECOMMENDATIONS

We recommend that the Casualty Unit implement measures to ensure that there is a sufficient basis for accepting partial payments from third parties as full payment of their Medicaid liabilities.

We also recommend that the Casualty Unit implement measures to ensure that it identifies all accident-related Medicaid costs for recipients when pursuing recovery from other liable third parties.

AGENCY PRELIMINARY RESPONSE

DCH agrees with both recommendations. DCH will strive to improve its efforts to properly identify and recover accident-related costs, but recognizes that it will never realize an absolute 100% success rate.

FOLLOW-UP CONCLUSION

The Casualty Unit complied with both recommendations.

The Casualty Unit implemented a policy, effective March 16, 2010, that required Casualty Unit staff to fully document the actions they took in processing cost recovery cases. Also, in October 2006, the Casualty Unit began requiring management approval of settlements/proposals totaling less than 70% of Medicaid's lien. In May 2007, the Casualty Unit developed a settlement/proposal form to document this approval. We reviewed 10 randomly selected cases and identified 7 cases that resulted in no recovery or only a partial recovery of Medicaid's costs. For all 7 (100%) cases, Casualty Unit staff documented an acceptable reason for not making a full recovery. We also identified 2 cases requiring an approved settlement/proposal form. The Casualty Unit could not locate this form for either case. Subsequent to our review, the Casualty Unit informed us that it tightened its controls over the completion of the settlement/proposal form in February 2010 after hiring a new Casualty Unit supervisor. We reviewed 1 additional case settled after the supervisor's arrival and noted that an approved settlement/proposal form was present for the case.

The Casualty Unit issued a written policy, effective April 7, 2010, that provided detailed guidance for identifying accident-related Medicaid claims for casualty cases. The guidance appropriately addressed pharmaceuticals, which comprised a significant portion of the unidentified accident-related costs noted during our prior audit. To test the effectiveness of this policy, we reviewed 10 randomly selected casualty cases and noted that the Casualty Unit had appropriately identified all accident-related Medicaid costs.

GLOSSARY

Glossary of Acronyms

AT	Action Transmittal.
BER	birthing expense request.
COLS	Court Originated Liability Section.
DCH	Department of Community Health.
DHS	Department of Human Services.
FOC	Friend of the Court.
FSA	Family Support Act.
ICE	internal control evaluation.
MCR	maternity case rate.
MIHP	Maternal Infant Health Program.
MSA	Medical Services Administration.
OAG	Office of the Auditor General.
OCS	Office of Child Support.
PA	prosecuting attorney.
PCRS	Paternity and Casualty Recovery System.
SCAO	State Court Administrative Office.

TCRS	Traffic Crash Reporting System.
WCFOC	Wayne County Friend of the Court.

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