



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JANET OLSZEWSKI  
DIRECTOR

August 20, 2007

Mr. Michael Moody, Director  
DMB Office of Financial Management  
Romney Building - Seventh Floor  
111 South Capitol  
Lansing, Michigan 48933

RE: Performance Audit of Court Originated Liability Section, Department of Community Health

Dear Mr. Moody:

In accordance with the Department of Management and Budget's Administrative Manual, Section 1280.02, enclosed is the Department's final response for the above referenced audit.

Please contact me at 373-1508 if you have any questions.

Sincerely,

Signature Redacted

Pam Myers, Acting Director  
Office of Audit

PM:kk

Enclosure

cc: Office of the Auditor General  
House Fiscal Agency  
Senate Fiscal Agency  
Executive Office  
DCH, Janet Olszewski  
DMB, Bob Emerson, State Budget Director

House Appropriations Committee  
House Standing Committee  
Senate Appropriations Committee  
Senate Standing Committee  
DCH, Ed Dore  
DCH, Nick Lyon

PERFORMANCE AUDIT OF  
COURT ORIGINATED LIABILITY SECTION  
MEDICAL SERVICES ADMINISTRATION  
DEPARTMENT OF COMMUNITY HEALTH

October 1, 2002 through September 30, 2005

AUDIT RESPONSE

Approved: Signature Redacted  
Janet Olszewski, Director  
Department of Community Health

Date: June 6, 2007



## AUDIT REPORT SUMMARY

DEPARTMENT: Community Health  
AUDIT PERIOD: October 1, 2002 through September 30, 2005  
REPORT DATED: March 2007

### DISPOSITION OF AUDIT RECOMMENDATIONS

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS NOT COMPLIED WITH</u>
	1 (9/30/07)	
	2* (12/31/07)	2*
3		
	4 (FY '08)	
5**	5**	
	6 (11/07)	
7		
8 (partially)	8***	
	9 (7/31/07)	
10		
11		

- \* Recommendation 1 will be complied with by 12/31/07. DCH does not intend to comply with recommendation 2 without being able to determine if such an endeavor would be cost effective.
- \*\* Recommendation 1 was complied with. Recommendation 2 will be complied with by 9/30/07.
- \*\*\* Steps are being taken and additional controls will be implemented as time and resources permit.

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Recommendation 1:      Medicaid Cost Reports for Wayne County Recipients

We recommend that the Paternity Unit coordinate with OCS within the Department of Human Services, 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 and under the FSA.

Response:

DCH is attempting to develop a system that will enable it to identify and provide information involving Medicaid recipients, who have been involved in actions brought under the Paternity Act and FSA, without having to wait for specific requests for information. DCH has now employed the services of a contractor to respond to these requests. In addition, DCH will respond to additional follow-up requests it receives from Wayne County pertaining to the time period referenced in the audit. DCH will only respond to those cases for which there is a reasonable chance of collection.

- The system DCH was attempting to develop had to be canceled due to flaws discovered while researching the proposal. DCH is continuing to investigate other possible solutions.
- DCH has not yet initiated any contact with Wayne County. Contact will be made prior to September 30, 2007.
- DCH has processed all requests for birthing related costs for deliveries during calendar years 2001 through 2005 for all counties. All birthing related expense requests for delivery dates subsequent to the audit period have been processed, subject to applicable DCH policy.

Recommendation 2:      Accuracy of Medicaid Cost Reports

We recommend that the Paternity Unit implement measures to ensure that it includes all pregnancy and birthing-related Medicaid costs for mothers with non-marital 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.

Response:

Because of the cost involved and uncertainty surrounding collection of 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 has implemented corrective measures that include all

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pregnancy and birthing related costs for mothers with non-marital births on reports to agencies responsible for recovering the costs from the fathers. In December 2005, new formulas were developed for gathering pregnancy and birthing related expenditures that incorporate the maternity case rate and pharmaceutical product costs. Payments made to maternal support services providers are now included. Further, DCH has changed its practice and begun using a 90-day post-delivery end date for gathering postpartum care costs.

- DCH has asked the Office of Medical Affairs to review the pharmacy component of this process and has implemented their recommendations. This review will be initiated yearly.
- DCH is developing an enhanced query to further refine the selection of related expenditures which is expected to become operational by December 31, 2007. This process will be reviewed yearly.
- DCH is doing random reviews of the contractor's work product monthly. The reviews have shown the contractor has consistently been within the error level of 5% established by DCH.
- Priority is being given to responding to requests for expenditure reports received on or after January 1, 2006.
- DCH expects to complete the development of a cost effectiveness formula to apply to opening previously submitted incomplete reports by 12/31/07.

Recommendation 3:      Processing of Requests for Medicaid Costs

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.

Response:

Due to the limited potential for recovery DCH is not willing to incur the cost required in an attempt to answer previous requests for pregnancy and birthing related Medicaid costs. DCH has taken to steps to ensure that all current requests are processed and in December 2005 implemented the Paternity and Casualty Recovery System (PCRS) which allows the Paternity Unit to track and report on all pregnancy and birthing related expenditure requests. DCH is attempting to develop a system that will allow it to identify and provide FOC offices with this information for Medicaid recipients without having to wait for specific information requests.

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- Requests are received by DCH and forwarded to the contractor. The contractor enters information such as the response date in PCRS, which is monitored by DCH. The contractor generates the birthing related cost reports and submits them to DCH, a random sample of approximately 20% are then reviewed before being forwarded to the requestor. DCH staff also review a bi-weekly processing volume report provided by the contractor.
- DCH has processed all requests for birthing related costs for deliveries during calendar years 2001 through 2005 for all counties. All birthing related expense requests for delivery dates subsequent to the audit period have been processed, subject to applicable DCH policy.

Recommendation 4: County Reimbursement Limits

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.

Response:

DCH will work with state and local agencies to attempt to develop a solution to the use of countywide limits. Judicial discretion will possibly limit the impact on increased court-ordered reimbursement or potential recoveries.

- DCH will continue to work with DHS' Office of Child Support to explore the issue and pursue resolution with the various state and local agencies involved. DCH expects to have a resolution to this issue during FY 08.

Recommendation 5: Biennial Internal Control Assessment

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.

Response:

COLS staff will coordinate with other Revenue and Reimbursement Division staff to effectively complete the BICE and to complete all control activities that it has committed to complete. The assessment format was changed, more thorough training was provided for managers, and a more thorough review of the completed work sheets will be completed to ensure that risks have been adequately identified and evaluated.

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- COLS and other Third Party Liability Division staff coordinated to complete the most recent biennial internal control assessment.
- OAG's audit report referenced control activities that had not been completed for electronic matching of files to auto accident and workers compensation databases, and revisions to the trauma code edit system. DCH anticipates both of these control activities being completed by September 30, 2007.

Recommendation 6:      Use of State Motor Vehicle and Workers' Compensation Files

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.

Response:

DCH 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.

- A draft has been completed and shared with the contractor. As revisions are made they are sent on to the contractor. Protocol for the new process will not be completely finalized until November 2007.

Recommendation 7:      Processing of Cost Recovery Cases

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.

Response:

DCH will strive to improve its efforts to properly identify and recover accident-related costs.

- DCH will continue to utilize the negotiation parameters granted under Section 106(5) of the Michigan Public Act 409 of 2004 in determining acceptance of partial payments. Negotiation parameters were established for staff in October 2006.
- On-going training of staff continues.

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Recommendation 8:      Processing of Cost Recovery Leads

We recommend that the Casualty Unit establish effective controls for ensuring the security over and appropriate processing of Medicaid cost recovery leads.

Response:

The new PCRS includes the ability to track and report on all leads and/or cases. Procedures are being developed to effectively manage cost recovery leads, including the ability to assign a priority to leads exceeding the cost threshold. Controls will be evaluated and implemented as necessary to ensure the integrity of the information entered into the system.

- PCRS is now being used to report all leads and cases.
- All information coming into the Division is logged into PCRS as soon as it is received. Each item is prioritized by gross dollars and then follows one of several processing paths. This process may be routinely modified, as appropriate.
- Staff are monitoring volume and processing. Weekly meetings are held of key DCH managers and staff to improve case outcomes.
- Tracking and analysis of all leads and/or cases using the PCRS system and reporting to measure integrity will occur as time and resources permit.

Recommendation 9:      Trauma Code Edit System

We recommend that the Casualty Unit properly control, update, and use its trauma code edit system.

Response:

PCRS was developed, in part, to automate, control, and improve the trauma edit questionnaire process. A contractor was hired to perform the subrogation activities associated with this process. Procedures will be developed to enable the contractor to perform these activities. Standard subrogation correspondence and the questionnaire are being reviewed and modified as part of the procedure development. Trauma edit codes have been reviewed and a systems request has been submitted to change the PCRS table to include all federally required diagnosis codes and to remove all unnecessary codes. Tables will be monitored regularly to ensure that the codes being used are appropriate.

- Draft procedures have been completed and shared with the contractor. As revisions are made they are sent on to the contractor. Protocol for the new process is not expected to be completely finalized until November 2007.



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- The PCRS table should be completely updated by July 2007 to include all federally required codes, part of this process will also include the removal of all unnecessary codes.
- The PCRS table will be reviewed periodically to ensure appropriate codes are being used.

Recommendation 10: Cost Recovery Thresholds

We recommend that the Casualty Unit document and periodically reassess the appropriateness of its Medicaid cost recovery thresholds.

Response:

DCH will document and periodically reassess its cost recovery thresholds and make changes when appropriate.

- All automated matches have cost thresholds. DCH is now current in the processing of cases. Should a major backlog in cases develop, DCH will consider reassessing cost thresholds on cases.

Recommendation 11: Mail Opening and Cash Controls

We recommend that the Casualty Unit establish required controls over its cash receipts.

Response:

Mail opening for the entire Revenue and Reimbursement Division was centralized beginning in January 2006, with the Casualty Unit's mail included in this process. Mail opening procedures were implemented consistent with the State of Michigan Financial Management Guide.

- The Third Party Liability Division continues to use the State of Michigan Financial Management Guide.