



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

November 28, 2003

REGION V  
OFFICE OF  
INSPECTOR GENERAL

Report Number: A-05-02-00077

Ms. Nannette M. Bowler  
Director, Michigan Family Independence Agency  
Post Office Box 30037  
Lansing, Michigan 48909

Dear Ms. Bowler:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of the Ability of Noncustodial Parents to Contribute Toward the Medical Costs of Title IV-D Children in Michigan That Were Paid Under the Medicaid Program." Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

Final determination as to actions taken on all matters reported will be made by the HHS Action Official. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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To facilitate identification, please refer to report number A-05-02-00077 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Ms. Jean Augustine

Director

Department of Health and Human Services

Office of Audit Resolution and Cost Policy

Room 522E, Humphrey Building

200 Independence Avenue, S.W.

Washington, D.C. 20201

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF THE ABILITY OF  
NONCUSTODIAL PARENTS TO  
CONTRIBUTE TOWARD THE MEDICAL  
COSTS OF TITLE IV-D CHILDREN IN  
MICHIGAN THAT WERE PAID UNDER  
THE MEDICAID PROGRAM**



**NOVEMBER 2003  
A-05-02-00077**

# *Office of Inspector General*

<http://oig.hhs.gov>

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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**

### **OBJECTIVES**

The objective of our audit was to identify the number of children in Michigan who received child support (Title IV-D children) and also received Medicaid benefits because their noncustodial parents (NCPs) did not provide court-ordered medical support. We also determined the potential savings that could have accrued to the Medicaid program if the NCPs had been required to contribute toward the Medicaid costs of these children. Our audit covered the period May 1, 2001 through April 30, 2002.

### **SUMMARY OF FINDINGS**

From our sample of 200 children, we identified 34 Title IV-D children whose NCPs could have potentially contributed \$10,168 toward the Medicaid costs incurred by their children. We projected these results to the total population and estimated that the NCPs for 35,047 Title IV-D children could have contributed \$10.5 million of the \$26.8 million incurred by Medicaid for their children. We estimated potential savings to the Medicaid program by subtracting from the NCP's monthly net income the child support ordered and a self-support reserve of \$700 and dividing the result by the NCP's number of children. If sufficient income remained, it was considered potentially available to cover either part or all of the Medicaid expenses. The result was compared to the actual Medicaid costs incurred by the State.

Although Michigan has made progress in obtaining private health insurance for its children, situations still exist which hamper Michigan from fully maximizing potential private health insurance sources for medical support. Court orders for medical support require NCPs to provide health coverage only if it is available at a reasonable cost through their employer. In addition, Michigan child support guidelines do not require NCPs to contribute toward the Medicaid costs their children incur.

### **RECOMMENDATION**

We recommend that Michigan consider the results of our study and pursue collecting the Medicaid costs incurred by children of NCPs who have medical support orders and the ability to pay.

### **STATE AGENCY COMMENTS**

The State did not take exception to the findings. (See Appendix B.) The State is implementing a new child support enforcement system that it anticipates will result in less need for Medicaid benefits and enhanced enrollment in employer health care coverage. After the new system is in place, the State will evaluate the cost effectiveness of implementing our recommendation.

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# INTRODUCTION

## BACKGROUND

### Child Support Enforcement Program

The Child Support Enforcement program was enacted in 1975 under Title IV-D of the Social Security Act. The purpose of the program was to establish and enforce support and medical obligations owed by NCPs to their children. Within the Federal Government, the Administration for Children and Families, Office of Child Support Enforcement, is responsible for administering the program.

In Michigan, the Office of Child Support, a division of the Family Independence Agency, is responsible for establishing paternity and pre-orders. Michigan has explicit guidelines that specify the amount that NCPs are required to pay in child support and medical support. If the NCP's employer does not offer medical insurance at a reasonable cost, the State does not require the NCP to contribute toward the coverage of Medicaid costs.

### Medicaid Program

The Medicaid program was established in 1965 under Title XIX of the Social Security Act to pay for medical expenses for certain vulnerable and needy individuals and families with low income and resources. Medicaid is the payer of last resort, whose costs are shared between the Federal and State Governments. Within the Federal Government, the Medicaid program is administered by the Centers for Medicare & Medicaid Services (CMS).

The Michigan Department of Community Health oversees the Medicaid program and has contracts with managed care organizations to provide services to Medicaid recipients at negotiated capitation rates (premiums). The premiums, which are based on the age and sex of the recipient as well as the plan's service area, are paid monthly. The recent premium ranges for children were as follows:

- |                          |                     |
|--------------------------|---------------------|
| • Newborn (0-11 months)  | \$226.26 - \$480.31 |
| • Preschool (1-4 years)  | \$41.56 - \$86.29   |
| • Child (5-14 years)     | \$27.81 - \$56.33   |
| • Teenager (15-20 years) | \$55.91 - \$117.34  |

Medical procedures not covered by the premiums are paid in accordance with established fee-for-service schedules.

### Related Reports

On June 18, 1998, we issued a report (A-01-97-02506), which showed that NCPs could contribute approximately \$11.4 million (Federal and State combined) toward their children's

Medicaid costs in Connecticut. The report recommended that Connecticut require NCPs to pay all or part of the Medicaid costs for their dependent children.

Congress enacted the Child Support Performance and Incentives Act of 1998 (Public Law 105-200, effective October 1, 2001) to encourage the States to enforce medical support orders and provide health care coverage to uninsured children. Under the provisions of the law, Congress directed the establishment of the Medical Child Support Working Group by the Secretaries of Health and Human Services and Labor. The Secretaries appointed the members from the child support community. In June 2000, the Working Group issued a report to both Secretaries identifying impediments to effective enforcement of medical support orders and recommending solutions. Since medical support orders are not enforceable when employers do not provide health insurance or the cost is unreasonable, some Title IV-D children are enrolled in Medicaid. In cases where Title IV-D children are enrolled in Medicaid, the Working Group recommended that States authorize decisionmakers, such as judges, to require NCPs to contribute toward the costs of Medicaid benefits for their children.

After consideration of the report issued by the Working Group and the results of our audit in Connecticut, we initiated reviews in Michigan, Indiana, New York, New Jersey, Connecticut (followup), North Carolina, Texas, and Virginia to determine the potential savings to the Medicaid program that could result if NCPs were required to contribute to the costs of Medicaid benefits for their children.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

The objective of our audit was to identify the number of children in Michigan who received child support (Title IV-D children) and also received Medicaid benefits because their NCPs did not provide court-ordered medical support. We also determined the potential savings that could have accrued to the Medicaid program if the NCPs had been required to contribute toward the Medicaid costs of these children.

### **Scope**

For the period May 1, 2001 through April 30, 2002, we selected a statistically valid sample of 200 children from a population of 206,157 children:

- who received Title IV-D services,
- whose NCPs had been court-ordered to provide health coverage, and
- whose NCPs made at least three child support payments during the period.

Cases were statistically selected using a simple sampling design. Details on our sampling methodology and projection are presented in Appendix A. We evaluated applicable child support and Medicaid laws, regulations, and guidelines to determine whether NCPs could contribute toward the Medicaid costs of their children.

We did not review the overall internal control structure of the Michigan child support agency. Our review was limited to obtaining an understanding of the process used to enforce medical support orders. Further, we tested the reliability of computer files used to determine the population for our sample by tracing pertinent data to source documents.

## **Methodology**

For each sample item, we:

- reviewed State Title IV-D computer files to determine the amount paid in child support,
- reviewed State Title IV-D records to determine whether NCP health insurance was available, and
- identified whether the Title IV-D child had incurred Medicaid costs.

To determine the amount of medical support the NCP could pay for a sample child, we reduced the NCP's net monthly income by (1) the amount of monthly child support the NCP was ordered to pay and (2) a minimum self-support reserve of \$700 or the net income limitation imposed under the Federal Consumer Credit Protection Act, whichever was higher.<sup>1</sup> We then divided the amount available for medical support by the number of children the NCP had in our population to determine the amount available, if any, for medical support for our sample child.

We computed the potential savings to the Medicaid program by comparing the amount of medical support the NCP could pay to the monthly Medicaid costs the State paid on behalf of the NCP's child. These costs were for months during which the NCP had a current child support obligation and did not provide court-ordered medical support. The potential savings to the Medicaid program was the lower of (1) the amount of medical support the NCP could pay or (2) the monthly Medicaid costs the State paid on behalf of the NCP's child.

In calculating the savings, we assumed that NCPs would consistently pay computed Medicaid costs. Factors not considered in our savings calculations include future increases or decreases in Medicaid costs and NCP income.

Our review was conducted in accordance with generally accepted government auditing standards. We performed our fieldwork at the Family Independence Agency between October 2002 and January 2003.

## **FINDINGS AND RECOMMENDATION**

From our sample of 200 children, we identified 34 children whose NCPs could have contributed \$10,168 toward the Medicaid costs incurred by their children. We projected these results to the total population and estimated that the NCPs for 35,047 children could have contributed \$10.5 million of the \$26.8 million incurred by Medicaid for their children.

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<sup>1</sup> Income withholding for child and medical support may not exceed the maximum amount allowed under the Consumer Credit Protection Act.

## **Federal Laws and Regulations**

Over the past decade, Congress passed several Federal laws and CMS published regulations to provide health insurance for uninsured children. Specifically:

- The Omnibus Budget Reconciliation Act of 1993 permits Title IV-D agencies to establish medical support orders for children when the NCP has access to medical coverage.
- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 directs the Title IV-D agency to notify an employer of an NCP's medical child support obligation and directly enroll his or her children if a health plan is available.
- The Child Support Performance and Incentives Act of 1998, Public Law 105-200, encourages States to enforce medical support orders and provide health coverage to uninsured children.
- Title 45, Code of Federal Regulations, §303.31(b)(1), requires medical support orders to be established when the NCP has access to health insurance through an employer at a reasonable cost.

While the essence of the above laws and regulations is to provide private medical coverage to uninsured children, medical support orders are not enforceable when an NCP's employer does not provide health insurance or the cost is unreasonable. Consequently, some Title IV-D children are enrolled in Medicaid.

## **Michigan State Laws**

Michigan has legislation requiring all new child support orders to include provisions for medical support. Michigan Common Law, section 552.605a(2), provides that:

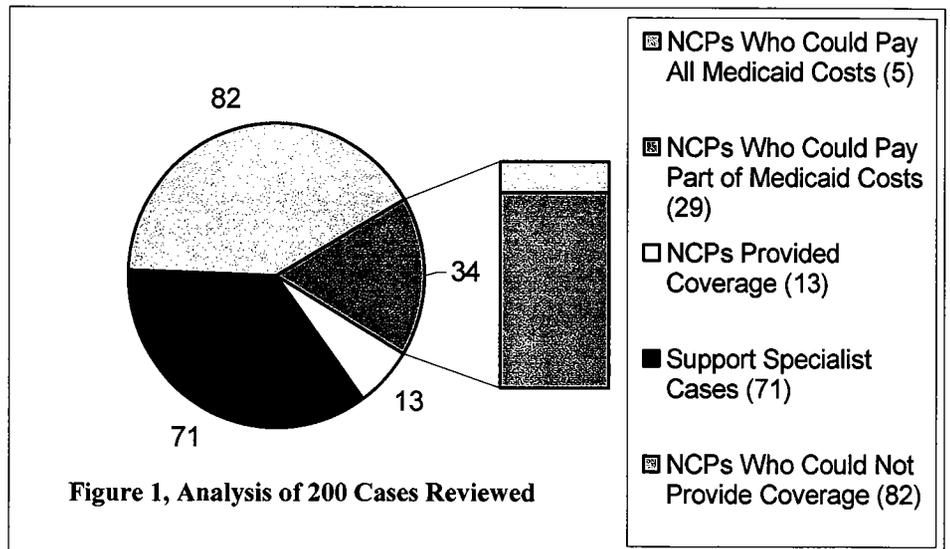
... If a child support order is entered, the court shall require that 1 or both parents obtain or maintain health care coverage that is available to them at a reasonable cost, as a benefit of employment, for the benefit of the minor children of the parties and, subject to section 5b, for the benefit of the parties' children who are not minor children. If a parent is self-employed and maintains health care coverage, the court shall require the parent to obtain or maintain dependent coverage for the benefit of the minor children of the parties and, subject to section 5b, for the benefit of the parties' children who are not minor children, if available at a reasonable cost . . . .

Michigan also has legislation to recover from the father costs relating to the birth of a child, whether paid by the mother or the State. Michigan Common Law, section 722.717(2), states that "... the order shall also provide for the payment of the necessary expenses incurred by or for the mother in connection with her confinement, . . . and for the expenses in connection with the pregnancy of the mother . . . ."

## Initial Analysis of Sample Items

Out of our sample of 200 children, 34 incurred Medicaid costs and had NCPs who met their child support obligation during our audit period. For these children, we calculated potential savings to the Medicaid program.

We excluded the remaining 166 children and their NCPs from further review because there was no potential Medicaid program savings to be calculated. Specifically:



- 13 children did receive health coverage;
- 82 children did not receive child support payments in the months when the children incurred Medicaid costs, and therefore we assumed that the NCP would not pay the Medicaid costs; and
- 71 children were support specialist cases, which are cases in which the father has not been located; the father is incarcerated; or the family has been reunited and, therefore, there are no support orders in effect.

## Detailed Analysis of Sample Cases

The NCPs for the 34 children should potentially be able to contribute \$10,168 toward the Medicaid costs incurred by their children. Considering months when the NCPs met their child support payments and the children incurred Medicaid costs, we calculated potential savings based on the lesser of remaining income, after child support and a self-support reserve, or the child's Medicaid cost.

To determine how much the NCPs could contribute toward the Medicaid costs of their children, we used Michigan's Title IV-D guidelines and formulas for determining child and medical support, including the following information:

- NCP net pay (gross income less tax obligations);
- monthly child support payments; and
- minimum NCP income reserve for self-support (\$700) or half of net income, whichever is greater.

## **RECOMMENDATION**

We recommend that Michigan consider the results of our study and pursue collecting the Medicaid costs incurred by children of NCPs who have medical support orders and the ability to pay.

## **STATE AGENCY COMMENTS**

The State did not take exception to the findings. Currently, the State is in the process of implementing a new child support enforcement system that it anticipates will result in less need for Medicaid benefits and enhanced enrollment in employer health care coverage. After the new system is in place, the State will evaluate the cost effectiveness of implementing our recommendation.

# APPENDICES

**STATISTICAL SAMPLING INFORMATION**

**Sample Results:**

- Population (Title IV-D Children): 206,157
- Sample Size (Title IV-D Children): 200
  - Medicaid costs incurred by sample: \$222,580
  - Number of children whose NCPs provided health coverage: 13
  - Number of children whose NCPs did not provide health coverage: 116
  - Number of support specialist cases, NCP health coverage unknown: 71
  - Sample items with no characteristics of interest (children): 166
  - Sample items with characteristics of interest: 34
  - Potential Medicaid program savings of sample items with characteristics of interest: \$10,168

**Projections:**

**(Precision at the 90-Percent Confidence Level)**

	Estimated Medicaid Savings	Estimated Number of Children Whose NCPs Could Contribute to Estimated Medicaid Savings	Total Estimated Medicaid Costs for the Children Whose NCPs Could Contribute to Estimated Medicaid Savings	Estimated Number of Children Whose NCPs Did Not Provide Health Coverage	Estimated Number of Support Specialist Cases
Upper Limit	\$14,105,834	45,309	\$36,655,882	131,671	85,448
Point Estimate (Midpoint)	\$10,480,878	35,047	\$26,769,229	119,571	73,186
Lower Limit	\$6,855,921	26,332	\$16,882,575	107,102	61,594
Precision	34.59%	N/A	36.93%	N/A	N/A



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
FAMILY INDEPENDENCE AGENCY  
LANSING

May 29, 2003



NANNETTE M. BOWLER  
DIRECTOR

APPENDIX B  
Page 1 of 2

Mr. Paul Swanson  
Regional Inspector General for Audit Services  
233 N. Michigan Avenue, Suite 1360  
Chicago, IL 60601

Subject: Response to Final Report A-05-02-00077

Dear Mr. Swanson:

Enclosed is our response to the final report, "Increasing Medical Support from Non-Custodial Parents While Reducing Medicaid Costs." If you have any questions, please contact William Addison, CPA, Audit Liaison at 517-335-3961 or AddisonB@michigan.gov.

Sincerely,

Nannette M. Bowler

Enclosure

c: Marilyn Stephen  
Duane Noworyta  
Malynda Little

State of Michigan  
Family Independence Agency  
Health and Human Services Medicaid Audit Report  
Report Number A-05-02-00077  
May 1, 2001 through April 30, 2002

APPENDIX B  
Page 2 of 2

HHS Recommendation

FIA Comments

That FIA work with MDCH and the Friend of the Court to seek change in existing state child support laws to require NCPs to pay all or part of the Medicaid costs for their dependent children, which could result in potential savings of as much as \$10.5 million.

FIA did not consider this review to be an audit but a study of medical support within the Michigan Child Support Program. It is our understanding that study does not provide a basis for any financial consequences to the State of Michigan, FIA, or the program.

In that spirit we do not take exception to the findings as presented.

Michigan Child Support Program anticipates less need for Medicaid benefits for those children in the child support enforcement program because the enforcement of medical support will be enhanced under new Michigan Child Support Enforcement System (MiCSES 2.4). The National Medical Support Notice (a notice to withhold the employee's contribution and enroll the children in health care coverage - NMSN) will be sent in response to each New Hire hit or the entry of a new employer. There are also reports available from MiCSES of parents with employers but no insurance coverage reported.

Once the MiCSES is implemented and the program improves medical support enforcement we will evaluate the cost effectiveness of proposing this statute change.

## ACKNOWLEDGMENTS

This report was prepared under the direction of Paul Swanson (RIGA). Other principal Office of Audit Services staff who contributed include:

Ross Anderson, Audit Manager  
Mitchell Collier, Auditor  
Kathryn Cartwright, Auditor  
Clarence Hightower, Auditor  
Mano Hardies, Auditor