



JUN 17 2003

To: Wade F. Horn, Ph.D.
Assistant Secretary
for Children and Families

Thomas Scully
Administrator
Centers for Medicare and Medicaid Services

From: Dennis J. Duquette *Duquette*
Deputy Inspector General for Audit Services

Subject: Review to Increase the Number of Non-Custodial Parents Providing Medical Support to Their Children and Reduce Medicaid Costs in North Carolina (A-04-02-00013)

As part of the Office of Inspector General's self-initiated audit work, we are alerting you to the issuance within 5 business days of our final audit report entitled, "Review to Increase the Number of Non-Custodial Parents Providing Medical Support to Their Children and Reduce Medicaid Costs in North Carolina." A copy of the report is attached.

This review is part of a nationwide effort being performed in eight states. The objectives of our review were to determine the:

- (1) number of children under the North Carolina Child Support Enforcement program receiving Medicaid benefits because private health insurance was unavailable or unaffordable to non-custodial parents (NCP) who were ordered to provide coverage; and
- (2) amount of savings to the Medicaid program if alternative insurance arrangements could be established by the state that would allow NCPs to meet their responsibility of providing health insurance by making monthly contributions towards their children's Medicaid costs.

North Carolina has an opportunity to increase the number of NCPs providing medical support for their children and reduce Medicaid costs. We found that in 75 out of 100 cases reviewed, NCPs were unable to fully meet their obligation to provide health insurance for their children. This occurred because either their employers did not offer health insurance or available health insurance was not reasonable in cost. However, we determined that 35 of the 75 NCPs could contribute towards part or all of the Medicaid costs the state paid on behalf of their children from June 2001 through May 2002.

Page 2 – See Addresses

During this 1-year period, we estimate that \$17.4 million could have been collected from the NCPs of 30,987 children to partially offset the Medicaid costs incurred by the state and Federal Governments to provide health care to these children. North Carolina currently has no mechanism for NCPs to pay towards their children's Medicaid costs. Also, existing federal legislation does not require NCPs to provide medical support if the employer does not offer health insurance or the insurance is too costly.

We recommended that North Carolina modify existing state child support laws to allow the implementation of policies and procedures that require NCPs to contribute to their child's Medicaid costs. Any such modification in state child support laws should be directed at NCPs that are ordered to provide medical insurance, but are unable to do so because the NCPs':

- (1) employers do not offer health insurance; or
- (2) health insurance cannot be obtained at a reasonable cost.

In written comments to the draft report, state officials were receptive to our findings and believe that the report's recommendations have significant merit.

If you have any questions or comments on any aspect of this report, please do not hesitate to call me or Donald L. Dille, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175, or e-mail at ddille@oig.hhs.gov. To facilitate identification, please refer to report number A-04-02-00013 in all correspondence relating to this report.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

JUN 20 2003

REGION IV
Room 3141
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

Report Number A-04-02-00013

Carmen Hooker Odom, Secretary
North Carolina Department of Health
and Human Services
Adams Building, 101 Blair Drive
Raleigh, North Carolina 27603

Dear Secretary Odom:

Enclosed are two copies of a United States Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, *Review to Increase the Number of Non-Custodial Parents Providing Medical Support to Their Children and Reduce Medicaid Costs in North Carolina*. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determinations as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 Code of Federal Regulations Part 5).

To facilitate identification, please refer to report number A-04-02-00013 in all correspondence relating to this report.

Sincerely,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures - as stated

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Direct Reply to HHS Action Official:

Director, Division of Audit Resolution
Office of Grant and Acquisition Management
Assistant Secretary of Management and Budget
U.S. Department of Health and Human Services
Wilbur J. Cohen Building, Room 1067
330 Independence Avenue, S.W.
Washington, D.C. 20201

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW TO INCREASE THE NUMBER
OF NON-CUSTODIAL PARENTS
PROVIDING MEDICAL SUPPORT TO
THEIR CHILDREN AND REDUCE
MEDICAID COSTS IN NORTH
CAROLINA**



**June 2003
A-04-02-00013**

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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.





REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

JUN 20 2003

Carmen Hooker Odom
Secretary of the North Carolina Department
of Health and Human Services
Adams Building, 101 Blair Drive
Raleigh, North Carolina 27603

Dear Madam Secretary Odom:

This final report provides the results of our report entitled, "Review to Increase the Number of Non-Custodial Parents Providing Medical Support to Their Children and Reduce Medicaid Costs in North Carolina," report number A-04-02-00013.

EXECUTIVE SUMMARY

OBJECTIVES

The objectives of our review were to determine the:

- (1) number of children under the North Carolina Child Support Enforcement program receiving Medicaid benefits because private health insurance was unavailable or unaffordable to non-custodial parents (NCP) who were ordered to provide coverage; and
- (2) amount of savings to the Medicaid program if alternative insurance arrangements could be established by the state that would allow NCPs to meet their responsibility of providing health insurance by making monthly contributions towards their children's Medicaid costs.

SUMMARY OF FINDINGS

North Carolina has an opportunity to increase the number of NCPs providing medical support for their children and reduce Medicaid costs. We found that in 75 out of 100 cases reviewed, NCPs were unable to fully meet their obligation to provide health insurance for their children. This occurred because either their employers did not offer health insurance or available health insurance was not reasonable in cost. However, we determined that 35 of the 75 NCPs could contribute towards part or all of the Medicaid costs the state paid on behalf of their children from June 2001 through May 2002.

During this 1-year period, we estimate that \$17.4 million could have been collected from the NCPs of 30,987 children to partially offset the Medicaid costs incurred by the state and Federal Governments to provide health care to these children. North Carolina currently has no mechanism for NCPs to pay towards their children's Medicaid costs. Also, existing federal legislation does not require NCPs to provide medical support if the employer does not offer health insurance or the insurance is too costly.

RECOMMENDATION

We recommend that North Carolina modify existing state child support laws to allow the implementation of policies and procedures that require NCPs to contribute to their child's Medicaid costs. Any such modification in state child support laws should be directed at NCPs that are ordered to provide medical insurance, but are unable to do so because the NCPs':

- (1) employers do not offer health insurance, or
- (2) health insurance cannot be obtained at a reasonable cost.

We realize that it will take a number of years for North Carolina to fully implement new laws requiring NCPs to contribute to their child's Medicaid costs. Also, we recognize that there will be costs associated with implementing the process of collecting Medicaid costs from the NCPs. However, we believe the estimated savings projected from the results of our sample review clearly demonstrate the benefit of implementing new laws requiring NCPs to contribute to their child's Medicaid costs.

In written comments to the draft report, state officials were receptive to our findings and believe that the report's recommendations have significant merit. State officials believe that the current federal reimbursement rate provides little incentive to spend additional monies at a time when state funds are scarce. In response to our recommendations, the state plans to form a committee to: (1) further explore the report recommendations; (2) examine possible approaches; (3) estimate initial and continuing costs of implementation; and (4) make recommendations to the Governor and legislature accordingly.

We applaud the state's decision to further explore the report's recommendations and examine possible approaches to the medical support issue. As pointed out in our recommendations, we realize that it will take a number of years for North Carolina to fully implement new laws requiring NCPs to contribute to their child's Medicaid costs. However, we continue to believe the estimated savings projected from the results of our sample review clearly demonstrate the benefit of implementing new laws requiring NCPs to contribute to their child's Medicaid costs.

In response to the state's request for clarification of whether reimbursement can be obtained for the cost of collecting medical support from NCPs, two alternatives may be available to the state. First, we believe that any additional cost the state may incur collecting medical support from NCPs could be a reimbursable activity under IV-D regulations provided North Carolina adopted

and implemented similar laws to that of Texas. We believe this is feasible because enforcing child support orders established by a court or administrative authority is a state IV-D function. Second, it also may be possible that these costs can be reimbursed by Medicaid through some type of cooperative agreement between the state's IV-D and Medicaid agencies. However, we suggest that state officials consult with federal officials from the Office of Child Support Enforcement and Centers for Medicare and Medicaid Services (CMS) to determine the most viable alternative.

The state's written comments and the Office of Inspector General's (OIG) response to the state's comments are summarized in more detail after the **RECOMMENDATION** section of this report. The complete text of the state's comments is included in Appendix C.

INTRODUCTION

BACKGROUND

The Child Support Enforcement program was enacted in 1975 under Title IV-D of the Social Security Act and is administered at the federal level by the Administration for Children and Families. One of the purposes of this program is to establish and enforce child support and medical support orders. In North Carolina, the Division of Social Services' Child Support Enforcement Office (the state Title IV-D agency) administers the child support enforcement program. The state Title IV-D agency's responsibilities include intake, establishment of paternity, establishment of support obligations and enforcement of child support and medical support orders.

Over the past decade, Congress passed several federal laws concerning uninsured children and providing these children with health insurance through federal programs. While the essence of these laws is to provide private medical coverage to uninsured children, an estimated 8.5 million children or 11.7 percent remained uninsured in 2001 according to the U.S. Census Bureau. Of the children that were covered by private or government insurance, the U.S. Census Bureau found that Medicaid covered nearly 1 in 4 children.

Because medical support orders are not always enforceable, especially when employers do not provide health insurance or the cost is unreasonable for NCPs, some Title IV-D children are enrolled in Medicaid. Both the state and Federal Governments share the costs incurred under the Medicaid fee-for-service program or regular payment to managed care organizations.

In North Carolina, the Department of Health and Human Services, Division of Medical Assistance administers the Medicaid program. The state's Medicaid options include Carolina Access, health maintenance organizations (HMO), and fee-for-service. As of January 2002, approximately 73 percent of all North Carolina Medicaid recipients eligible to participate were enrolled in Carolina Access. Carolina Access is a mixed fee plan with a monthly case management fee of \$2 to \$3 paid to the primary care physician to manage the person's care.

Primary care providers bill fee-for-service and are reimbursed based on the Medicaid fee schedule. Mecklenburg county residents have an HMO option available. The Division of Medical Assistance makes payment to the HMO through a monthly capitation rate. Also, a fee-for-service arrangement is available for Medicaid recipients where there is no Carolina Access or HMO option.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our review were to determine the:

- (1) number of children under the North Carolina Child Support Enforcement program receiving Medicaid benefits because private health insurance was unavailable or unaffordable to NCPs who were ordered to provide coverage; and
- (2) amount of savings to the Medicaid program if alternative insurance arrangements could be established by the state that would allow NCPs to meet their responsibility of providing health insurance by making monthly contributions towards their children's Medicaid costs.

Scope

Our audit population included 88,533 Medicaid eligible children of paying NCPs with court orders to provide medical support during the period June 1, 2001 through May 31, 2002. We reviewed an unrestricted random sample of 100 of these cases. Details on our sampling methodology are presented in Appendices A and B.

Our audit was conducted in accordance with generally accepted government auditing standards. We did not review the overall internal control structure of the Title IV-D agency. Our internal control review was limited to obtaining an understanding of the related procedures regarding North Carolina's medical enforcement process. The objectives of our review were accomplished through substantive testing.

Fieldwork was performed at both the North Carolina Department of Health and Human Services, Division of Social Services, Office of Child Support Enforcement and Division of Medical Assistance offices between August and November 2002. On January 27, 2003, prior to issuing the draft report, we discussed the results of our review with North Carolina Department of Health and Human Services representatives. On March 14, 2003, we issued a draft report to state officials for comment. Subsequently, on April 10, 2003, we held an exit conference with state officials to discuss the draft report findings and recommendation. On April 14, 2003, we received the state's written comments to the draft report.

Methodology

To accomplish our audit objective, we:

- selected a random sample of 100 cases from a population of 88,533 Medicaid eligible Title IV-D children of paying NCPs with court orders to provide medical support during the period June 1, 2001 through May 31, 2002;
- reviewed federal regulations and state policies and procedures pertaining to the state's enforcement of medical support;
- reviewed state Title IV-D guidelines for calculating child support payments;
- reviewed state Title IV-D computer files for child support payments and medical enforcement status;
- obtained from the state Medicaid agency, Medicaid eligibility information and type of plan (fee-for-service or HMO) for our sample items;
- identified and calculated savings for children of NCPs who could afford to pay for medical support using state Title IV-D agency information on child support payments and Medicaid paid claims data; and
- applied attribute and variable sample appraisal methodologies to project to the population the: (1) number of children with NCPs who do not have access to available or affordable health plans; and (2) potential Medicaid savings.

We tested the reliability of the computer file extract of Title IV-D children by comparing information for each sampled case to source documents. Specifically, we verified the child's name, date of birth, case identification number, Medicaid eligibility and NCP name. We relied on the state Title IV-D medical enforcement process to determine if health insurance was available to the NCP, and whether the available insurance was reasonable in cost. For each sampled case, we also used Title IV-D and Medicaid computerized records to determine the amount of the child support payment, NCP income, and Medicaid expenditures and eligibility.

To compute possible savings, we used child support guidelines to identify those cases where NCPs could afford to pay for all or part of the state’s Medicaid costs. We primarily focused on NCP net pay, child support, minimum NCP income for self-support, and Medicaid fee-for-service amounts or HMO premiums for the NCP’s child. Figure 1 illustrates the process. We also reduced the amount available for medical support by dividing the amount available by the number of NCP’s children in our population.

The NCP’s net pay for the example shown in Figure 1 was \$987 per month. Using North Carolina’s Title IV-D records, we determined that the NCP’s monthly child support payments totaled \$113, and the

<i>NCP Monthly Net Pay</i>	<i>\$987</i>
<i>Less:</i>	
- <i>Child Support Payment</i>	<i>(113)</i>
- <i>Greater of Minimum Self-Support Reserve or 50 percent of Net Income</i>	<i>(700)</i>
<i>Amount Available for Medical Support</i>	<i><u>\$174</u></i>
<i>Monthly Fee-For-Service Amount</i>	<i><u>\$ 76</u></i>
<i>Since the monthly fee-for-service amount is less than the amount available for medical support, the NCP could pay the entire monthly fee-for-service amount.</i>	

Figure 1 – Example of NCP Who Could Afford to Pay for All of the Monthly Medicaid Costs for Their Child

NCP was entitled to minimum monthly income of \$700 for self-support. Deducting child support and minimum self-support from the NCP’s net pay left \$174 for medical support. We compared the amount left for medical support to the average monthly Medicaid fee-for-service costs, \$76, the state paid on behalf of the NCP’s child. Accordingly, the NCP could afford the monthly Medicaid fee-for-service amount for this child.

In calculating the savings, we made the assumption 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.

FINDINGS AND RECOMMENDATION

North Carolina has an opportunity to increase the number of NCPs providing medical support for their children and reduce Medicaid costs. Our review of 100 sample cases covering the period June 2001 through May 2002 identified 75 cases where NCPs did not provide court-ordered medical coverage for their children.

This occurred because either their employers did not offer health insurance or available health insurance was not reasonable in cost. However, we determined that in 35 of the 75 cases, NCPs could contribute towards part or all of the Medicaid costs the state paid on behalf of the NCPs’ children from June 2001 through May 2002.

During this 1-year period, we estimate that \$17.4 million could have been collected from the NCPs of 30,987 children to partially offset the Medicaid costs incurred by the state and Federal Governments to provide health care to these children.

MEDICAL SUPPORT REQUIREMENTS

Federal regulations require Title IV-D agencies to petition the court to include health insurance in orders for support when NCPs' children do not have satisfactory insurance. However, they do not require NCPs to provide medical support if health insurance is not available at a reasonable cost. In these situations, it is the taxpayers rather than the NCPs that are paying for the medical support of Title IV-D children through the Medicaid program.

Title 45 Code of Federal Regulations (CFR) 303.31(b), regarding the securing and enforcing of medical support obligations, states that:

“...the Title IV-D agency shall: (1) Unless the custodial parent and child(ren) have satisfactory health insurance other than Medicaid, petition the court or administrative authority to include health insurance that is available to the noncustodial parent at reasonable cost in new or modified court or administrative orders for support.”

Also, Title 45 CFR 303.31(a)(1) states, “Health insurance is considered reasonable in cost if it is employment related or other group health insurance, regardless of service delivery mechanism.”

North Carolina law regarding the securing and enforcing of medical support obligations mirrors current federal law.

MEDICAL SUPPORT FUNDED BY TAXPAYERS

In North Carolina many NCPs, while required by a court order to provide medical insurance for their children, were unable to meet this obligation. Consequently, taxpayers funded these children's health care coverage through North Carolina's Medicaid program.

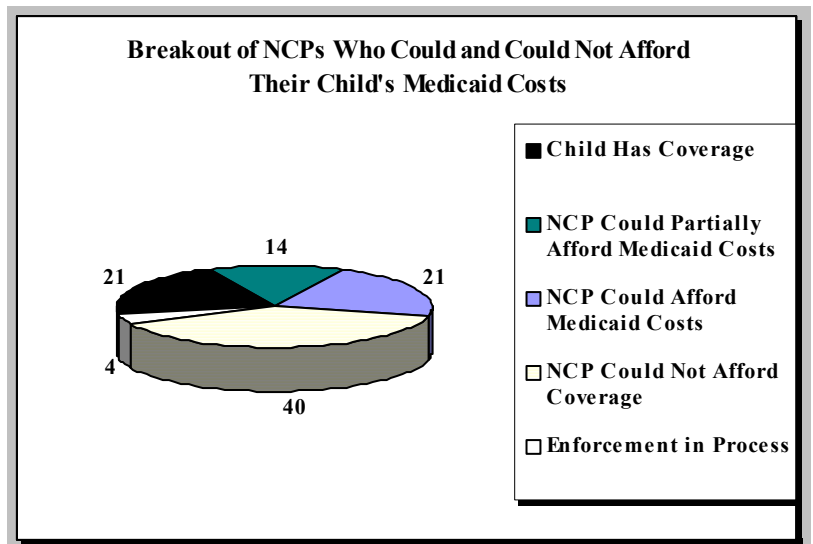


Figure 2

Our review of 100 cases identified 75 cases with NCPs who were unable to fully meet their medical support obligations. In 35 of the 75 cases, NCPs could contribute towards part or all of the Medicaid costs paid on behalf of their children.

As shown in Figure 2, we identified:

- 21 cases with NCPs that provided their children with health insurance for the entire period;
- 14 cases with NCPs that could afford to pay a portion of their children’s Medicaid costs;
- 21 cases with NCPs that could afford to pay all of their children’s Medicaid costs;
- 40 cases with NCPs that could not afford to pay any of their children’s Medicaid costs; and
- 4 cases with enforcement of medical support by the IV-D agency pending.

Projecting the results of the sample, we estimate that NCPs of 30,987 children could contribute towards all or a portion of their children’s Medicaid costs. Federal and state Medicaid dollars could be saved if North Carolina required NCPs to offset Medicaid costs paid by the state on behalf of their children.

VIABLE SOLUTIONS

While required to provide medical insurance for their children, we found that many NCPs did not because their employers did not offer health insurance, or available health insurance was not reasonable in cost. Instead, the Medicaid program covered the cost of their children’s health care. In North Carolina, there is currently no mechanism for NCPs to pay towards their children’s Medicaid costs. Also, existing federal legislation does not require NCPs to provide medical support if the employer does not offer health insurance or the insurance is too costly. However, we believe there are viable solutions.

In cases where the NCPs’ children do not have satisfactory insurance, federal regulations require the Title IV-D agency to petition the court or administrative authority to include health insurance that is available to the NCP at reasonable cost. Federal regulations consider the cost of health insurance reasonable if it is employment related or other group health insurance.

Currently, North Carolina law does not provide any means to have the NCPs contribute to the cost of Medicaid for their children. One possible reason for this is that most of the children receiving Medicaid are enrolled in the Carolina Access managed care plan. Since this program is reimbursed fee-for service except for a small case management fee, there is not a Medicaid monthly premium as there is for an HMO plan. Trying to collect actual fee-for-service amounts

paid by the Medicaid program from an NCP for their child would be a complex system to implement and maintain.

One state has recently taken action that may be part of a solution in North Carolina. Texas implemented a law defining the “reasonable cost” of health care to mean that the cost of the insurance premium does not exceed 10 percent of the NCP’s net income. When medical insurance is unaffordable or not available to the NCP, the NCP could be ordered to pay up to 10 percent of net income for their child’s medical support. This additional support could be used to offset the cost of Medicaid or SCHIP.

On the federal level, Congress passed the Child Support Performance and Incentives Act of 1998 (CSPIA), Public Law 105-200 (effective October 1, 2001) to encourage states to enforce medical support orders and provide health coverage to uninsured children. Under the provisions of CSPIA, the Medical Child Support Working Group was formed to develop recommendations for effective enforcement of medical support by state IV-D agencies and to report these recommendations to the U. S. Department of Health and Human Services Secretary. This working group has recommended that a limit of five percent of gross income be used for determining NCP contributions for health care coverage. However, these recommendations are not currently regulations and states are not obligated to implement them.

NCPs ABLE TO CONTRIBUTE

Implementing policies and procedures that require NCPs to pay all or part of the Medicaid costs for their child provides NCPs with a way to meet their responsibility of providing health insurance to their children and could save North Carolina millions in Medicaid costs.

Specifically, 35 of 100 cases in our sample showed that the NCPs could contribute to the cost of their child’s health care. Projecting the results to the universe, we estimate that the NCPs of 30,987 children could have provided \$17.4 million towards the cost of their children’s Medicaid costs during our audit period if there was a system established to do so (see Appendices A and B).

RECOMMENDATION

We recommend that North Carolina modify existing state child support laws to allow the implementation of policies and procedures that require NCPs to contribute to their child’s Medicaid costs. Any such modification in state child support laws should be directed at NCPs that are ordered to provide medical insurance but are unable to do so because the NCPs’:

- (1) employers do not offer health insurance; or
- (2) health insurance cannot be obtained at a reasonable cost.

We realize that it will take a number of years for North Carolina to fully implement new laws requiring NCPs to contribute to their child's Medicaid costs. Also, we recognize that there will be costs associated with implementing the process of collecting Medicaid costs from the NCPs. However, we believe the estimated savings projected from the results of our sample review clearly demonstrate the benefit of implementing new laws requiring NCPs to contribute to their child's Medicaid costs.

State's Comments

State officials were receptive to our findings and believe that the report's recommendations have significant merit. However, state officials were concerned about the implementation and operation costs associated with a policy change. State officials believe that the current federal reimbursement rate provides little incentive to spend additional monies at a time when state funds are scarce.

In response to our recommendations, the state plans to form a committee to: (1) further explore the report recommendations; (2) examine possible approaches; (3) estimate initial and continuing costs of implementation; and (4) make recommendations to the Governor and legislature accordingly. State officials also pointed out that legislation could not be introduced during the current legislative session. State officials believe that the 2005 session of the General Assembly would be the earliest that the legislature could consider any recommendations state officials may have for making the state's child support program more cost-effective.

Also, state officials requested clarification of 45 CFR 304.23(g). Specifically, the officials wanted assurance that the collection of Medicaid costs from NCPs is reimbursable under Child Support Enforcement regulations.

OIG's Response

We applaud the state's decision to further explore the report's recommendations and examine possible approaches to the medical support issue. As pointed out in our recommendations, we realize that it will take a number of years for North Carolina to fully implement new laws requiring NCPs to contribute to their child's Medicaid costs. Also, we recognize that there will be costs associated with implementing the process of collecting Medicaid costs from the NCPs. However, we continue to believe the estimated savings projected from the results of our sample review clearly demonstrate the benefit of implementing new laws requiring NCPs to contribute to their child's Medicaid costs.

In response to the state's request for clarification of whether reimbursement can be obtained for the cost of collecting medical support from NCPs, two alternatives may be available to the state. First, we believe that any additional cost the state may incur collecting medical support from NCPs could be a reimbursable activity under IV-D regulations provided North Carolina adopted and implemented similar laws to that of Texas. We believe this is feasible because enforcing child support orders established by a court or administrative authority is a state IV-D function.

Specifically, Texas statute governs the conduct of the courts and establishes a priority among sources of health insurance for the child. The first priority is for the provision of health insurance through the NCP's employment, Medicaid, etc., if it is available at a reasonable cost, defined to be no more than 10 percent of the NCP's net income. While federal regulations require that the IV-D agencies petition for medical support whenever available from NCPs at a reasonable cost, courts have the discretion to establish an additional child support order with a specific monetary amount to cover the cost of medical coverage, including Medicaid. Accordingly, the state IV-D agency would be within its authority to enforce the child support order and seek federal reimbursement for those costs.

Second, it also may be possible that these costs can be reimbursed by Medicaid through some type of cooperative agreement between the state's IV-D and Medicaid agencies. However, we suggest that state officials consult with federal officials from the Office of Child Support Enforcement and CMS to determine the most viable alternative.

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Final determinations as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 Code of Federal Regulations Part 5).

To facilitate identification, please refer to report number A-04-02-00013 in all correspondence relating to this report.

Sincerely,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Page 12 – Carmen Hooker Odom

Direct Reply to HHS Action Official:

Director, Division of Audit Resolution
Office of Grant and Acquisition Management
Assistant Secretary of Management and Budget
U.S. Department of Health and Human Services
Wilbur J. Cohen Building, Room 1067
330 Independence Avenue, S.W.
Washington, D.C. 20201

APPENDICES

SAMPLING METHODOLOGY

ESTIMATE OF THE NUMBER OF CASES WITH NCPs THAT COULD CONTRIBUTE TOWARDS PART OR ALL OF THEIR CHILDREN'S MEDICAID COSTS

OBJECTIVE

The objective of the sample was to estimate the number of cases of children with NCPs who do not have access to available or affordable health plans, but could contribute towards the cost of their child's Medicaid costs.

POPULATION

The population consists of 88,533 Medicaid eligible children of paying NCPs with court orders to provide medical support. We have defined a paying case as an NCP that has made a minimum of five child support payments during the 1-year period ended May 31, 2002. Paying NCP cases include child support payments from wage withholdings, voluntary payments, tax intercept payments and direct payments by the self-employed.

SAMPLE UNIT, DESIGN, AND SIZE

The sampling unit was a Medicaid eligible child of a paying NCP who is ordered to provide medical coverage. An unrestricted random sample of 100 children was used.

ESTIMATION METHODOLOGY

Using the Department of Health and Human Services, OIG, OAS RAT-STATS unrestricted attribute appraisal program, we projected the number of cases of children with NCPs who do not have access to available or affordable health plans, but could contribute towards the cost of their child's Medicaid costs.

RESULTS AND PROJECTION OF SAMPLE

<i>NCPs Who Could:</i>	<i>Number</i>	<i>Projected Total</i>	<i>90 Percent Confidence Interval</i>	
			<i>Lower Limit¹</i>	<i>Upper Limit</i>
Fully or Partially Afford Medicaid Costs	35	30,987	23,975	38,603
Fully Afford Medicaid Costs	21	18,592	12,862	25,505
Partially Afford Medicaid Costs	14	12,395	7,676	18,603

¹ Confidence limits for each sub-estimate reflect the precision of that estimate only. Accordingly, the lower and upper limits for each sub-estimate will not add up to the limits in the overall estimate.

SAMPLING METHODOLOGY

**ESTIMATE OF MEDICAID SAVINGS FOR NCPS THAT COULD
CONTRIBUTE TOWARDS PART OR ALL OF THEIR CHILDREN'S
MEDICAID COSTS**

OBJECTIVE

The objective of the sample was to estimate the total amount of Medicaid fee-for-service costs and managed care premium that could be paid by NCP's on behalf of their children.

POPULATION

The population consists of 88,533 Medicaid eligible children of paying NCPs with court orders to provide medical support. We have defined a paying case as an NCP that has made a minimum of five child support payments during the 1-year period ended May 31, 2002. Paying NCP cases include child support payments from wage withholdings, voluntary payments, tax intercept payments and direct payments by the self-employed.

SAMPLE UNIT, DESIGN, AND SIZE

The sampling unit was a Medicaid eligible child of a paying NCP who is ordered to provide medical coverage. An unrestricted random sample of 100 children was used.

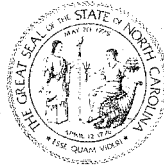
ESTIMATION METHODOLOGY

Using the HHS OIG OAS RAT-STATS unrestricted variable appraisal program, we projected the total amount of Medicaid fee-for-service costs and managed care premium that could be paid by NCP's on behalf of their children.

RESULTS AND PROJECTION OF SAMPLE

<i>NCPs Who Could:</i>	<i>Number</i>	<i>Savings</i>	<i>Projected Savings</i>	<i>90 Percent Confidence Interval</i>	
				<i>Lower Limit²</i>	<i>Upper Limit</i>
Fully or Partially Afford Medicaid Costs	35	\$19,649.32	\$17,396,132	\$7,951,471	\$26,840,794
Fully Afford Medicaid Costs	21	\$12,952	\$11,466,794	\$3,028,486	\$19,905,103
Partially Afford Medicaid Costs	14	\$6,697.32	\$5,929,338	\$1,262,537	\$10,596,140

² Confidence limits for each sub-estimate reflect the precision of that estimate only. Accordingly, the lower and upper limits for each sub-estimate will not add up to the limits in the overall estimate.



North Carolina Department of Health and Human Services

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April 10, 2003

Michael F. Easley, Governor

Carmen Hooker Odom, Secretary

Transmit via fax:

404-562-7795

Reference: CIN: A-04-02-00013

Mr. Charles J. Curtis
Regional Inspector General for Audit Services, Region IV
Room 3T41, Atlanta Federal Center
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

Dear Mr. Curtis:

Our office is in receipt of your March 14, 2003 letter regarding the OIG draft report entitled, **Review to Increase the Number of Non-Custodial Parents Providing Medical Support to Their Children and Reduce Medicaid Costs in North Carolina.** In accordance with your request, we are providing the NC DHHS response to the findings and recommendations in the draft report.

NC DHHS Response

NC DHHS management has reviewed the report with considerable interest due to the initial OIG savings projection. We believe that the issue raised by OIG has significant potential; however, there are a number of issues that must be researched and addressed thoroughly prior to undertaking the suggested policy and shift in philosophy. Central to our concerns are offsetting implementation and operating costs that would need to be considered to determine the "net State savings" associated with a policy change.

Some of these issues/concerns are:

- A. Savings.** While we do not want to minimize the potential benefits of the report recommendations, it is important to note that the OIG's \$17.4 million in projected savings may be overly optimistic. The \$17.4 million represents the point estimate of the sample. We would be more comfortable approaching the potential savings by using the OIG's more conservative statistical "lower limit" estimate of \$7.9 million. That is, we prefer to be pleasantly surprised at additional savings than to be disappointed that projected savings do not fully materialize.
- B. Implementation Costs.** Equally important is the recognition that any change will be both costly and occur over an extended period of time. Examples of associated implementation costs which need to be estimated are as follows:



1. Costs related to programming changes in the ACTS system will be need to be factored into savings projections. This should be a one-time cost.
2. There are 87 Child Support Enforcement offices state-wide. Most of the 87 offices will need some level of additional staff. Our rough projections are that 60 additional staff positions would be required. The estimated cost of the expanded function would be approximately \$2.0 million per year in salaries and benefits—a continuing cost. We recognize that this number could change significantly depending upon the methodology employed in implementing the recommendations.
3. All Child Support Enforcement offices will have increased court costs since many of these Medicaid cases will require judicial determination. There will also be additional costs for the Administrative Office of the Courts due to the increased court time.
4. The existing Federal Office of Child Support Enforcement regulation 304.23(g) does not authorize portions of this activity as a reimbursable function of Child Support Enforcement. We would appreciate authoritative clarification on this issue since the absence or presence of Federal participation has a great affect on the break-even analysis for the State. Since the program will benefit both the Federal and State governments, it would appear that there should be Federal participation in the cost of operating the program.

As we view and interpret the current regulation, the Federal government would get most of the cost savings yet may not share in the costs of generating those savings.

<u>Projected Savings</u>		Federal Share	State/County Share
Using:	<u>Total</u>		
Point Estimate	17,396,132	10,883,020	6,513,112
Lower Limit	7,951,471	4,974,440	2,977,031

Using the statistical lower limit (\$2,977,031) State/local share, the savings projections accruing to the State/local governments practically vanish if the State has to absorb the total costs of implementing and maintaining the program.

5. At this time, the Federal Office of Child Support Enforcement pays no incentive for medical insurance/medicaid recoupment. Hence the 66% federal reimbursement rate provides little incentive to spend additional funds when matching State funds are already scarce.

Two other points need to be mentioned relative to the recommendations stated in the OIG report.

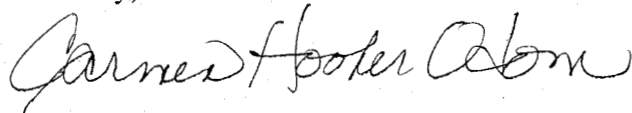
1. The Department has a project underway to identify and verify new health insurance policies for dependent Medicaid children. While the current project does not address the issues of this report, it does assist in identifying available insurance coverage and enrolling Medicaid recipients when coverage is available.
2. Legislation cannot be introduced in this session. Therefore, it will be the Long Session of 2005 General Assembly before any recommendation could be considered by the Legislature. This delay will give the Department time to fully explore different approaches and select one that is effective, yet simple to administer.

In conclusion, the Department is very appreciative of the review and feels that this type of report is very worthwhile. The OIG recommendations undoubtedly have significant merit. NC DHHS management plans to form a committee to explore the recommendations in more depth to determine the optimal approach. The committee will (a) further evaluate the report recommendations, (b) examine different possible approaches to reach the goals, (c) estimate the initial and continuing costs of implementation to the State and (d) make recommendations to the Governor and legislature accordingly. Obviously, the amount of Federal participation in program costs will have very significant impact on the Department's recommendations.

We encourage the OIG to perform additional reports that provide ideas on making State/Federal programs more cost-effective. The potential savings to the local/State and Federal governments are rendered even more important due to the fiscal constraints being imposed by a difficult economic climate throughout the nation.

Lastly, we would like to compliment the OIG staff that worked on this project. They were very professional in defining and gathering information, listening to our comments and objective in writing the report.

Sincerely,



Carmen Hooker Odom

CHO:ds

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ACKNOWLEDGMENTS □

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