




AUG 19 2004

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

Mark B. McClellan, M.D., Ph.D.
Administrator
Centers for Medicare & Medicaid Services

FROM: Dara Corrigan 
Acting Principal Deputy Inspector General

SUBJECT: Review of the Ability of Noncustodial Parents To Contribute Toward the Medical Costs of Title IV-D Children in North Carolina Under the State Children's Health Insurance Program (A-04-02-00014)

Attached is an advance copy of our final report on the ability of noncustodial parents to contribute toward the medical costs of Title IV-D children in North Carolina under the State Children's Health Insurance Program (SCHIP). We will issue this report to the State within 5 business days.

The Child Support Performance and Incentive Act of 1998 (Public Law 105-200, effective October 1, 2001) encourages States to enforce medical support orders and provide health care coverage to uninsured children. Pursuant to the law, the Secretaries of Health and Human Services and Labor established the Medical Child Support Working Group and 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. Because medical support orders are not enforceable when employers do not provide health insurance or the cost is unreasonable, some children who receive child support (Title IV-D children) are enrolled in SCHIP. In such cases, the Working Group recommended that States authorize decisionmakers, such as judges, to require noncustodial parents to contribute toward the costs of SCHIP benefits for their children.

We reviewed two populations of Title IV-D children in North Carolina: children who were not enrolled in SCHIP and children who were enrolled in SCHIP. Our objectives were to determine:

- the number of children, potentially without health insurance, who would have been eligible to receive SCHIP benefits and the amount that the noncustodial

parents could potentially contribute toward SCHIP premiums if their children had been enrolled

- the number of children who received SCHIP benefits and the amount that the noncustodial parents could potentially contribute toward SCHIP premiums

We conducted similar audits in six other States on which we will issue final reports. We conducted these audits as a result of a March 2002 Office of Inspector General report that identified significant savings potential in Connecticut if noncustodial parents were required to contribute toward the SCHIP premiums of their children.

North Carolina has an opportunity to increase SCHIP enrollment and have noncustodial parents pay a portion of the associated premiums. Based on a statistically valid sample, we estimated that 30,809 Title IV-D children would have been eligible to receive SCHIP benefits from June 1, 2001 through May 31, 2002. The noncustodial parents of 20,637 of these children could potentially contribute \$16,411,512 toward the \$24,902,030 (Federal and State combined) in premiums that would have been incurred if the children had been enrolled.

We also determined that 8,776 Title IV-D children received SCHIP benefits from June 1, 2001 through May 31, 2002. An estimated 3,686 of these children had noncustodial parents who could potentially contribute \$1,913,086 toward the \$3,626,882 in SCHIP premiums (Federal and State combined) paid on behalf of their children.

North Carolina law requires that courts consider the availability of health insurance when establishing a child support order. However, there is no provision for noncustodial parents to enroll their uninsured Title IV-D children in SCHIP when private insurance is not available or too costly. Accordingly, children of these noncustodial parents may not have been receiving the health care they would have been entitled to if they were enrolled in SCHIP. Additionally, there is no State or Federal requirement that noncustodial parents contribute toward their children's SCHIP premiums. As a result, North Carolina and the Federal Government paid the premiums incurred by children receiving benefits.

We recommend that North Carolina take appropriate steps to recover SCHIP premiums from noncustodial parents with medical support orders and the ability to pay for their dependent children.

State officials were receptive to our findings and believed that the report's recommendations had significant merit. However, State officials believed that our projected savings may be overly optimistic because, historically, North Carolina's child support collection rate has been only 61 percent. State officials also said they were concerned about whether reimbursement can be obtained for the cost of collecting medical support from noncustodial parents and pointed out 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, State officials plan to form a committee to (1) further evaluate the report recommendations, (2) examine possible approaches to reach the goals, (3) estimate the initial and continuing costs of implementation, and (4) make recommendations to the Governor and the legislature.

In addition, State officials said that Title IV-D involvement in the SCHIP enrollment process could discourage participation because some families were trying to protect their children from abusive or drug-addicted persons or persons from whom the family was hiding. State officials also suggested the possibility of allowing any person in North Carolina to fully “buy in” to SCHIP or to pay premiums on a sliding scale.

In response to the State’s comments, we modified our recommendations to give the State more flexibility in taking appropriate steps to recoup SCHIP premiums from noncustodial parents who have the financial ability to pay.

While State officials were concerned that the reported savings were overly optimistic, our sampling methodology was more conservative than using the 61 percent overall child support collection rate State officials suggested. In order to determine the estimated savings, we excluded noncustodial parents who were not making child support payments, included only those who made at least five payments during our audit period, and did not calculate savings for any month in which a payment was not made. Then, we calculated savings only for noncustodial parents who had the ability to pay all or part of their children’s SCHIP premiums based on their available income and North Carolina’s child support guidelines.

In response to the State’s request for clarification of whether the State can be reimbursed for the cost of collecting medical support from noncustodial parents, two alternatives may be available. First, we believe that such additional costs may be reimbursable under Title IV-D regulations. It is our understanding that Federal matching funds would be available for “required” medical support collection activities. Second, it may be possible that these costs can be reimbursed through some type of cooperative agreement between the State’s Office of Child Support Enforcement and the Division of Medical Assistance. In either case, we suggest that State representatives consult with Federal Child Support Enforcement and Centers for Medicare & Medicaid Services (CMS) officials to determine the most viable option.

We believe that the State’s concern that Title IV-D involvement in the enrollment of children in SCHIP could discourage participation is not an issue because these families are already Title IV-D cases. Also, the thrust of our report and recommendation is not to force anyone into SCHIP, but to offer an opportunity for the State to recoup SCHIP premiums when the responsible noncustodial parent has the financial ability and medical support obligation to provide coverage. Our recommendation would not change the voluntary nature of SCHIP.

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In regard to the “buy-in” provision, we suggest that State officials consult with the Federal Office of Child Support Enforcement and CMS to discuss this alternative.

If you have any questions or comments about this report, please do not hesitate to call me or have your staff call Peter J. Koenig, Acting Assistant Inspector General for Grants and Internal Activities, at (202) 619-3191 or e-mail him at Peter.Koenig@oig.hhs.gov. Please refer to report number A-04-02-00014 in all correspondence.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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

AUG 20 2004

Report Number: A-04-02-00014

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 the 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 North Carolina Under the State Children's Health Insurance Program." A copy of this report will be forwarded to the HHS official noted below for review and any action deemed necessary.

Final determination 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 (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR Part 5).

Please refer to report number A-04-02-00014 in all correspondence.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles J. Curtis".

Charles J. Curtis
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Director, Office of Audit Resolution and Cost Policies
Office of Finance
Assistant Secretary for Budget, Technology and Finance
U.S. Department of Health and Human Services
Hubert H. Humphrey Building, Room 517D
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 NORTH CAROLINA
UNDER THE STATE CHILDREN'S
HEALTH INSURANCE PROGRAM**



**AUGUST 2004
A-04-02-00014**

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

BACKGROUND

The State Children's Health Insurance Program (SCHIP) allows States to provide free or affordable health care coverage to uninsured children in families whose incomes are too high to qualify for Medicaid but too low to afford private coverage. Because medical support orders are not enforceable when employers do not provide health insurance or the cost is unreasonable, some children who receive child support (Title IV-D children) are enrolled in SCHIP.

During our audit period, North Carolina law did not require that Title IV-D children be enrolled in SCHIP when private insurance was not available or too costly. Additionally, there was no State or Federal requirement for noncustodial parents to contribute toward the SCHIP premiums paid on behalf of their children. As a result, North Carolina and the Federal Government paid the premiums incurred by these children receiving SCHIP benefits.

OBJECTIVES

We reviewed two populations of Title IV-D children in North Carolina: children who were not enrolled in SCHIP and children who were enrolled in SCHIP. Our objectives were to determine:

- the number of children, potentially without health insurance, who would have been eligible to receive SCHIP benefits and the amount that the noncustodial parents could potentially contribute toward SCHIP premiums if their children had been enrolled
- the number of children who received SCHIP benefits and the amount that the noncustodial parents could potentially contribute toward SCHIP premiums

Our audit covered the period June 1, 2001 through May 31, 2002.

SUMMARY OF FINDINGS

Children Potentially Without Health Insurance

North Carolina has an opportunity to enroll potentially uninsured Title IV-D children in SCHIP and provide a means for noncustodial parents to fulfill their medical support obligations. We estimated that 30,809 children whose noncustodial parents were unable to provide court-ordered medical support would have been eligible to receive SCHIP benefits during the audit period if no other health insurance had been available. An estimated 20,637 of these children had noncustodial parents who could potentially contribute \$16,411,512 toward the \$24,902,030 (Federal and State combined) in SCHIP premiums that would have been incurred if the children had been enrolled.

Children Who Received SCHIP Benefits

We determined that 8,776 Title IV-D children received SCHIP benefits during the period June 1, 2001 through May 31, 2002 because their noncustodial parents were unable to provide court-ordered medical support. An estimated 3,686 of these children had noncustodial parents who could potentially contribute \$1,913,086 toward the \$3,626,882 in SCHIP premiums (Federal and State combined) paid on behalf of their children.

RECOMMENDATION

We recommend that North Carolina take appropriate steps to recover SCHIP premiums from noncustodial parents with medical support orders and the ability to pay for their dependent children.

STATE'S COMMENTS

State officials were receptive to our findings and believed that the report's recommendations had significant merit. However, State officials believed that our projected savings may be overly optimistic because, historically, North Carolina's child support collection rate has been only 61 percent. State officials also said they were concerned about whether reimbursement can be obtained for the cost of collecting medical support from noncustodial parents and pointed out 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, State officials plan to form a committee to (1) further evaluate the report recommendations, (2) examine possible approaches to reach the goals, (3) estimate the initial and continuing costs of implementation, and (4) make recommendations to the Governor and the legislature.

In addition, State officials said that Title IV-D involvement in the SCHIP enrollment process could discourage participation because some families were trying to protect their children from abusive or drug-addicted persons or persons from whom the family was hiding. State officials also suggested the possibility of allowing any person in North Carolina to fully "buy in" to SCHIP or to pay premiums on a sliding scale.

OFFICE OF INSPECTOR GENERAL (OIG) RESPONSE

In response to the State's comments, we modified our recommendations to give the State more flexibility in taking appropriate steps to recoup SCHIP premiums from noncustodial parents who have the financial ability to pay.

While State officials were concerned that the reported savings were overly optimistic, our sampling methodology was more conservative than using the 61 percent overall child support collection rate State officials suggested. In order to determine the estimated savings, we excluded noncustodial parents who were not making child support payments, included only those who made at least five payments during our audit period, and did not calculate savings for any

month in which a payment was not made. Then, we calculated savings only for noncustodial parents who had the ability to pay all or part of their children's SCHIP premiums based on their available income and North Carolina's child support guidelines.

In response to the State's request for clarification of whether the State can be reimbursed for the cost of collecting medical support from noncustodial parents, two alternatives may be available. First, we believe that such additional costs may be reimbursable under Title IV-D regulations. It is our understanding that Federal matching funds would be available for "required" medical support collection activities. Second, it may be possible that these costs can be reimbursed through some type of cooperative agreement between the State's Office of Child Support Enforcement and the Division of Medical Assistance. In either case, we suggest that State representatives consult with Federal Child Support Enforcement and Centers for Medicare & Medicaid Services (CMS) officials to determine the most viable option.

We believe that the State's concern that Title IV-D involvement in the enrollment of children in SCHIP could discourage participation is not an issue because these families are already Title IV-D cases. Also, the thrust of our report and recommendation is not to force anyone into SCHIP, but to offer an opportunity for the State to recoup SCHIP premiums when the responsible noncustodial parent has the financial ability and medical support obligation to provide coverage. Our recommendation would not change the voluntary nature of SCHIP.

In regard to the "buy-in" provision, we suggest that State officials consult with the Federal Office of Child Support Enforcement and CMS to discuss this alternative. The State's written comments are included in their entirety in Appendix F.

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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 program provides authority to establish and enforce support and medical obligations owed by noncustodial parents to their children. Within the Federal Government, the Administration for Children and Families (ACF), Office of Child Support Enforcement is responsible for administering the program. In North Carolina, the Division of Social Services' Child Support Enforcement Office administers the Title IV-D program. The State Child Support Enforcement Office's responsibilities include intake, establishment of paternity and support obligations, and enforcement of the orders.

State Children's Health Insurance Program

The Balanced Budget Act of 1997 established SCHIP under Title XXI of the Social Security Act. This program allows States to provide free or affordable health care coverage to uninsured children in families whose incomes are too high to qualify for Medicaid but too low to afford private coverage. Within the Federal Government, CMS administers SCHIP.

North Carolina implemented its SCHIP program¹ in October 1998. The program offers the same hospitalization and outpatient coverage provided for the children of State employees and teachers, plus vision, hearing, and dental benefits. The North Carolina Department of Health and Human Services, Division of Medical Assistance administers SCHIP. However, the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan administers and processes SCHIP claims. In return, the State Department of Health and Human Services makes premium payments to the plan.

SCHIP has a \$50 annual enrollment fee per child with a maximum of \$100 per family. Also, there are certain out-of-pocket costs for families at the higher end of the income scale. For those at 150 percent of poverty and below, there are no out-of-pocket costs. SCHIP eligibility, and any premium charged to the family, is based on the household income. The noncustodial parent's income is not considered in either determination. Unlike Medicaid, this program is limited by the amount of Federal funds available.

Related Reports

On March 13, 2002, we issued a report (A-01-01-02500) showing that an additional 11,600 uninsured children in Connecticut could have been enrolled in SCHIP if the State Title IV-D agency had been used as an enrollment tool. In addition, the report noted that noncustodial parents could potentially contribute approximately \$10.9 million (\$7.1 million Federal share)

¹North Carolina's SCHIP is formally known as the North Carolina Health Choice for Children Program.

toward the SCHIP premiums for enrolling these children. We recommended that Connecticut require noncustodial parents to enroll their children in SCHIP when other health insurance is not available at a reasonable cost and assess the ability of noncustodial parents to contribute toward the SCHIP premiums of their children.

The Child Support Performance and Incentive Act of 1998 (Public Law 105-200, effective October 1, 2001) encourages States to enforce medical support orders and provide health coverage to uninsured children. Pursuant to the law, the Secretaries of Health and Human Services and Labor established the Medical Child Support Working Group and 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 and recommending solutions. The Working Group recommended, among other things, that States authorize decisionmakers, such as judges, to require noncustodial parents to contribute toward the cost of SCHIP benefits for their children when employer-sponsored health insurance is not available or not affordable.

After considering the Working Group's report and the results of our work in Connecticut, we initiated reviews in North Carolina, Indiana, Michigan, New Jersey, New York, Texas, and Virginia. The objective of these reviews was to identify savings to SCHIP if noncustodial parents had been required to contribute toward the premiums of SCHIP benefits for their children.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

We reviewed two populations of Title IV-D children in North Carolina: children who were not enrolled in SCHIP and children who were enrolled in SCHIP. Our objectives were to determine:

- the number of children, potentially without health insurance, who would have been eligible to receive SCHIP benefits and the amount that the noncustodial parents could potentially contribute toward SCHIP premiums if their children had been enrolled
- the number of children who received SCHIP benefits and the amount that the noncustodial parents could potentially contribute toward SCHIP premiums

Scope

For the period June 1, 2001 through May 31, 2002, we reviewed a statistically valid sample of:

- 200 children from the population of 58,131 Title IV-D children who did not receive SCHIP benefits

- 100 children from the population of 8,776 Title IV-D children who were enrolled in SCHIP

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.

Methodology

To accomplish our objectives, we:

- reviewed Federal and State laws, regulations, policies, and procedures
- interviewed State Office of Child Support Enforcement and Division of Medical Assistance officials
- examined State records related to sampled items
- tested the reliability of the computer file extract of Title IV-D children
- identified noncustodial parents who met our review criteria
- calculated potential savings to the Federal and State Governments

We selected the sampled items using a simple random sample design. Details on our methodology and savings calculations can be found in Appendix A. Appendices B through E provide details on our sampling results and projections.

We conducted our review in accordance with generally accepted government auditing standards. We performed fieldwork from November 2002 to April 2003.

FINDINGS AND RECOMMENDATION

North Carolina has an opportunity to enroll uninsured Title IV-D children in SCHIP and provide a means for noncustodial parents to fulfill their medical support obligations. We estimated that 30,809 uninsured children would have been eligible to receive SCHIP benefits during the audit period if no other health insurance had been available and that 20,637 of these children had noncustodial parents who could potentially contribute \$16,411,512 toward the \$24,902,030 (Federal and State combined) in SCHIP premiums that would have been incurred if the children had been enrolled.

We also determined that 8,776 Title IV-D children received SCHIP benefits during the audit period because their noncustodial parents were unable to provide court-ordered medical support. An estimated 3,686 of these children had noncustodial parents who could potentially contribute \$1,913,086 toward the \$3,626,882 in SCHIP premiums (Federal and State combined) paid on behalf of their children.

FEDERAL AND STATE REQUIREMENTS

Federal Laws and Regulations

Over the past decade, several Federal laws and regulations have been enacted to provide health insurance for uninsured children. Under 45 CFR § 303.31(b), a medical support order must be established to include health insurance that is available to the noncustodial parent at a reasonable cost. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 directs the Title IV-D agency to notify an employer of a noncustodial parent's medical support obligation and directly enroll his or her children if a health plan is available. The Child Support Performance and Incentive Act of 1998 encourages States to enforce medical support orders and provide health coverage to uninsured children. Title XXI, which authorizes the SCHIP program, does not prohibit States from collecting SCHIP costs from noncustodial parents who have a medical support order.

Although the intent of these laws and regulations is to provide private medical coverage to uninsured children, medical support orders are not enforceable when employers do not provide health insurance or the cost is unreasonable.

State Laws

North Carolina law requires that courts consider the availability of health insurance when establishing a child support order. However, there is no provision for noncustodial parents to enroll their uninsured Title IV-D children in SCHIP when private insurance is not available or is too costly. Accordingly, children of these noncustodial parents may not have been receiving the health care they would have been entitled to if they were enrolled in SCHIP. Additionally, there is no requirement that noncustodial parents contribute toward their children's SCHIP premiums.

As a result, North Carolina and the Federal Government paid the premiums incurred by children receiving SCHIP benefits.

SAMPLE RESULTS AND PROJECTIONS

Initial Analysis of Sampled Items

We analyzed the sampled children in each population to identify those whose noncustodial parents during the audit period:

- had a current child support obligation

- made a minimum of five child support payments
- were ordered to provide medical support but were unable to because it was either not available or too costly

We eliminated from our detailed analysis those sampled children whose noncustodial parents lacked one or more of the above attributes. For those cases meeting the above characteristics, we then eliminated children who had:

- Medicaid or private coverage during the entire audit period
- a family income level too high to qualify for SCHIP
- enforcement of ordered medical support in process

Detailed Analysis of Children Without Health Insurance

On the basis of our initial analysis, we eliminated 94 of the 200 sampled children from further calculations. We determined that the remaining 106 children would have been eligible to receive SCHIP benefits during the audit period. For these children, we calculated the number of noncustodial parents who could potentially contribute toward the SCHIP premiums that would have been incurred if their children had been enrolled:

- The noncustodial parents of 71 of the 106 children could potentially contribute \$56,464 toward the total premiums of \$85,676 (Federal and State combined). Projecting these results to the population of 58,131 children, we estimated that 20,637 children had noncustodial parents who could potentially contribute \$16,411,512, or 65.9 percent of the total \$24,902,030 in SCHIP premiums (Federal and State combined) that would have been incurred if these children had been enrolled in the program. (See Appendices B and D for detailed sampling results and projections.)
- For 35 of the 106 children, there would have been no potential savings to the SCHIP program because the noncustodial parents could not have afforded to pay any of the SCHIP premiums.

Detailed Analysis of Children Who Received SCHIP Benefits

On the basis of our initial analysis, we eliminated 25 of the 100 sampled children from further calculations. The remaining 75 children received SCHIP benefits during the audit period because their noncustodial parents were unable to provide court-ordered medical support. For these children, we calculated the number of noncustodial parents who could have contributed toward the SCHIP premiums incurred on behalf of their children:

- The noncustodial parents of 42 of the 75 children could potentially contribute \$21,799 toward the total SCHIP premiums of \$41,327 (Federal and State combined). Projecting these results to the population of 8,776 children, we estimated that 3,686 children had noncustodial parents who could potentially contribute \$1,913,086, or 52.7 percent of the total \$3,626,882 in SCHIP premiums (Federal and State combined). (See Appendices C and E for detailed sampling results and projections.)
- The noncustodial parents of 33 of the 75 children could not have afforded to pay any of the SCHIP premiums.

RECOMMENDATION

We recommend that North Carolina take appropriate steps to recover SCHIP premiums from noncustodial parents with medical support orders and the ability to pay for their dependent children.

STATE COMMENTS AND OIG RESPONSE

State Comments—General

State officials were receptive to our findings and believed that the report's recommendations had significant merit. However, State officials were concerned about the implementation and operation costs associated with a policy change. In addition, State officials said 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, State officials plan to form a committee to (1) further evaluate the report recommendations, (2) examine possible approaches to reach the goals, (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.

The State's comments are included in their entirety in Appendix F.

OIG Response—General

In response to the State's comments, we modified our recommendations to give the State more flexibility in taking appropriate steps to recoup SCHIP premiums from noncustodial parents who have the financial ability to pay.

We are pleased with the State’s decision to further explore the report’s recommendations and examine possible approaches to the medical support issue. We realize that it will take a number of years for North Carolina to fully implement the steps requiring noncustodial parents to contribute to their children’s SCHIP premiums. Also, we recognize that there will be costs associated with collecting SCHIP premiums from the noncustodial parents. However, we continue to believe the estimated savings projected from the results of our sample review clearly demonstrate the benefit of requiring noncustodial parents to contribute toward their children’s SCHIP premiums.

State Comments—Estimated Savings

State officials believe that our projected savings may be overly optimistic for two reasons. First, North Carolina’s Office of Child Support Enforcement has a historical child support collection rate of only 61 percent. Second, State officials said that they were more comfortable with our lower limit than the point estimate of our sample because of our assumption that noncustodial parents would consistently pay SCHIP premiums.

OIG Response—Estimated Savings

The sampling methodology we used was more conservative than using the overall Office of Child Support Enforcement collection rate of 61 percent. In order to determine the estimated savings, we excluded noncustodial parents who were not making child support payments, included only those who made at least five payments during our audit period, and did not calculate savings for any month in which a payment was not made. Then, we calculated savings only for noncustodial parents who had the ability to pay all or part of their children’s SCHIP premiums based on their available income and North Carolina’s child support guidelines.

State Comments—Federal Reimbursement

State officials requested clarification of 45 CFR § 304.23(g). Specifically, the officials wanted assurance that the collection of SCHIP premiums from noncustodial parents is reimbursable under Federal Child Support Enforcement regulations.

OIG Response—Federal Reimbursement

In response to the State’s request for clarification of whether the State can be reimbursed for the cost of collecting medical support from noncustodial parents, two alternatives may be available. First, we believe that such additional costs may be reimbursable under Title IV-D regulations. From our discussions with officials of the Federal Office of Child Support Enforcement, we understand that Federal matching funds would be available for “required” collection activities involving collection of sum-certain obligations specified in medical support orders. For your reference, we further understand that such expenses have been reimbursed in other States; for example, we were advised that this is the case with respect to the collection program in Texas. Second, it may be possible that these costs can be reimbursed through some type of cooperative agreement between the State’s Office of Child Support Enforcement and the Division of Medical Assistance. In either case, we suggest that State representatives consult with Federal officials

from the Office of Child Support Enforcement and CMS as to the specifics of the North Carolina program and the most viable options to seek reimbursement for costs associated with collecting medical support.

State Comments—Title IV-D Involvement and Buy-In Provision

State officials discussed the issue of Title IV-D involvement in enrolling children in the SCHIP program. They pointed out that Title IV-D involvement often discouraged families from participating because the families were trying to protect children from abusive persons, drug-addicted persons, or persons from whom the family was hiding.

As an added observation, State officials also suggested the possibility of allowing any person in North Carolina to fully “buy in” to SCHIP or to pay premiums on a sliding scale.

OIG Response—Title IV-D Involvement and Buy-In Provision

We believe that the State’s concern that Title IV-D involvement in the enrollment of children in SCHIP could discourage participation is not an issue because these families are already Title IV-D cases. Also, the thrust of our report and recommendation is not to force anyone into SCHIP, but to offer an opportunity for the State to recoup SCHIP premiums when the responsible noncustodial parent has the financial ability and medical support obligation to provide coverage. Our recommendation would not change the voluntary nature of SCHIP.

In regard to the “buy-in” provision, we suggest that State officials consult with the Federal Office of Child Support Enforcement and CMS to discuss this alternative.

APPENDICES

DETAILS ON OUR SAMPLING METHODOLOGY AND SAVINGS CALCULATIONS

Sampling Methodology

- ✓ We used an extract from the State Child Support Enforcement Office to create a universe of 66,907 Title IV-D children:
 - who were not Medicaid eligible for all of the period June 1, 2001 through May 31, 2002
 - whose noncustodial parent had made at least five child support payments including tax intercepts during the same period
- ✓ We obtained an extract from the Division of Medical Assistance's computer system identifying all children who received SCHIP benefits during June 1, 2001 through May 31, 2002.
- ✓ We tested the reliability of the extracts from the State Child Support Enforcement Office and the Division of Medical Assistance.
- ✓ We matched the universe created from the State Child Support Enforcement Office extract to the extract of children receiving SCHIP benefits to create a population of:
 - 58,131 Title IV-D children who did not receive SCHIP benefits during June 1, 2001 through May 31, 2002
 - 8,776 Title IV-D children who were enrolled in SCHIP during June 1, 2001 through May 31, 2002
- ✓ We used simple random sampling techniques to select:
 - 200 children from the population of 58,131 who did not receive SCHIP benefits during June 1, 2001 through May 31, 2002
 - 100 children from the population of 8,776 who were enrolled in SCHIP during June 1, 2001 through May 31, 2002

Savings Calculations

- ✓ We reviewed State Child Support Enforcement Office guidelines for calculating child support payments
- ✓ We determined, for the sample items in each population, if the noncustodial parent:

- had a current child support obligation
 - made five or more child support payments, including tax intercepts
 - met their current child support obligation
- ✓ We reviewed State records for sampled children to determine if the noncustodial parent was able to provide court-ordered medical support.
- ✓ We determined, for the sampled children who did not receive SCHIP benefits, the number of children who could have been eligible to receive SCHIP benefits if no other health insurance had been available. These determinations were made, in accordance with SCHIP income eligibility levels, using information from the North Carolina Health Choice Family Income Levels worksheet.
- ✓ We eliminated those sampled children who received private health insurance. To identify these children, we relied on information in State records.
- ✓ We determined the amount of medical support that noncustodial parents could have contributed toward their children's SCHIP premiums by reducing each noncustodial parent's net monthly income by (1) the amount of monthly child support the noncustodial parent was ordered to pay and (2) the minimum self-support reserve to which the noncustodial parent was entitled. We then divided the amount available for medical support by the number of children the noncustodial parent had in our population to determine the amount available, if any, for medical support for each sampled child.
- ✓ We computed the potential savings to SCHIP by comparing the amount of medical support that the noncustodial parent could pay with the monthly SCHIP premiums that the State paid on behalf of the noncustodial parent's child. The SCHIP cost represented the months in which the noncustodial parent had a current child support obligation and was unable to provide court-ordered medical support. The potential savings to SCHIP was the lower of (1) the amount of medical support that the noncustodial parent could pay or (2) the monthly SCHIP premiums the State and Federal Governments paid on behalf of the noncustodial parent's child.
- ✓ We used attribute and variable appraisal programs¹ to estimate (1) the number of children whose noncustodial parents did not provide court-ordered medical

¹An attribute is a characteristic that an item either has or does not have. In attribute sampling, the selected sampled items are evaluated in terms of whether they have the attribute of interest. An attribute appraisal program is a computer program that estimates the proportion of the population or the number of items in the population that have the attribute.

In variable sampling, the selected sampling units are evaluated with respect to a characteristic having values that can be expressed numerically or quantitatively, e.g., the dollar amount of error in a voucher. A variable appraisal program is a computer program that computes a statistic from the sample values to estimate the population parameter, e.g., an estimate of the total dollar amount of error in the population.

support and who could have been eligible for SCHIP if no other health insurance had been available, (2) the number of children who received SCHIP benefits because their noncustodial parents were unable to provide court-ordered medical support, and (3) the savings to SCHIP if noncustodial parents from both populations had been required to make monthly contributions toward the SCHIP premiums of their children.

**STATISTICAL SAMPLING INFORMATION:
TITLE IV-D CHILDREN NOT RECEIVING SCHIP BENEFITS**

**Sampling Results
(Federal and State Combined Premiums)**

Population (Children)	Sample Size (Children)	Sampled Items With Characteristics of Interest (Children)	SCHIP Premiums (for 106 Children)	Sampled Items With Savings (Children)	SCHIP Premiums (for 71 Children)	SCHIP Savings (for 71 Children)
58,131	200	106	\$119,148	71	\$85,676	\$56,464

**Projection—Population of 58,131 Children
(Federal and State Combined Premiums)
(Precision at the 90-Percent Confidence Level)**

	Cases With Characteristics of Interest (Children)	Cases With Savings (Children)	SCHIP Premiums for Cases With Savings	SCHIP Savings
Point Estimate (Midpoint)	30,809	20,637	\$24,902,030	\$16,411,512
Lower Limit	27,294	17,372	\$20,634,442	\$13,124,749
Upper Limit	34,286	24,090	\$29,169,618	\$19,698,275
Precision	N/A	N/A	17.14%	20.03%

**STATISTICAL SAMPLING INFORMATION:
TITLE IV-D CHILDREN RECEIVING SCHIP BENEFITS**

**Sampling Results
(Federal and State Combined Premiums)**

Population (Children)	Sample Size (Children)	Sampled Items With Characteristics of Interest (Children)	SCHIP Premiums (for 75 Children)	Sampled Items With Savings (Children)	SCHIP Premiums (for 42 Children)	SCHIP Savings (for 42 Children)
8,776	100	75	\$72,262	42	\$41,327	\$21,799

**Projection—Population of 8,776 Children
(Federal and State Combined Premiums)
(Precision at the 90-Percent Confidence Level)**

	Cases With Characteristics of Interest (Children)	Cases With Savings (Children)	SCHIP Premiums for Cases With Savings	SCHIP Savings
Point Estimate (Midpoint)	6,582	3,686	\$3,626,882	\$1,913,086
Lower Limit	5,873	2,957	\$2,814,347	\$1,404,153
Upper Limit	7,191	4,446	\$4,439,417	\$2,422,018
Precision	N/A	N/A	22.40%	26.60%

APPENDIX D

**ANALYSIS OF PROJECTIONS:
TITLE IV-D CHILDREN NOT RECEIVING SCHIP BENEFITS
(Eligibility Population)**

As explained in Appendix B, we estimated that 20,637 children had noncustodial parents who could have contributed \$16,411,512 in SCHIP premiums, totaling \$24,902,030 (Federal and State combined), that would have been incurred if their children were enrolled in SCHIP during our audit period. The following table is an itemization of our estimates based on whether the children’s noncustodial parents could pay all or part of the SCHIP premiums.

Eligibility Population (58,131 Children)

		Sample Value	Projection At Midpoint
Number of Children	Noncustodial parents can pay <u>part</u> of premium	57	16,567
	Noncustodial parents can pay <u>all</u> of premium	14	4,069
	Total	71	20,636¹
SCHIP Premiums	Noncustodial parents can pay <u>part</u> of premium	\$65,374	\$19,001,408
	Noncustodial parents can pay <u>all</u> of premium	\$20,301	\$5,900,622
	Total	\$85,675	\$24,902,030
SCHIP Savings	Noncustodial parents can pay <u>part</u> of premium	\$36,163	\$10,510,890
	Noncustodial parents can pay <u>all</u> of premium	\$20,301	\$5,900,622
	Total	\$56,464	\$16,411,512

¹The difference between the total shown here and the total shown in Appendix B is due to rounding.

APPENDIX E

**ANALYSIS OF PROJECTIONS:
TITLE IV-D CHILDREN RECEIVING SCHIP BENEFITS
(Utilization Population)**

As explained in Appendix C, we estimated that 3,686 children had noncustodial parents who could have contributed \$1,913,086 in SCHIP premiums, totaling \$3,626,882 (Federal and State combined), paid on behalf of their children. The following table is an itemization of our estimates based on whether children’s noncustodial parents could pay all or part of the SCHIP premiums.

Utilization Population (8,776 Children)

		Sample Value	Projection At Midpoint
Number of Children	Noncustodial parents can pay <u>part</u> of premium	41	3,598
	Noncustodial parents can pay <u>all</u> of premium	1	N/A ¹
	Total	42	3,686
SCHIP Premiums	Noncustodial parents can pay <u>part</u> of premium	\$39,877	\$3,499,623
	Noncustodial parents can pay <u>all</u> of premium	\$1,450	N/A
	Total	\$41,327	\$3,626,882
SCHIP Savings	Noncustodial parents can pay <u>part</u> of premium	\$20,349	\$1,785,826
	Noncustodial parents can pay <u>all</u> of premium	\$1,450	N/A
	Total	\$21,799	\$1,913,086

¹We could not project the number of noncustodial parents that can pay all of the premiums because OIG-OAS statistical sampling policy requires at least six characteristics of interest in order to project.



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July 16, 2003

Transmit via fax:
404-562-7795

Reference: CIN: A-04-02-00014

Mr. Charles J. Curtis
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Dear Mr. Curtis:

Our office is in receipt of your June 17, 2003 letter regarding the OIG draft report entitled, **Review to Increase the Number of Children Enrolled in the North Carolina Health Choice for Children Program Through Improved Coordination Between the North Carolina Child Support Enforcement and Health Choice Agencies**. 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, we feel that the OIG's \$16.4 million in projected savings may be overly optimistic. The \$16.4 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 \$13.1 million which is still likely a high estimate. This is in part due to the report's "assumption that NCPs would consistently pay NCHC premiums", an extremely optimistic position. North Carolina's CSE collection rate is 61% and would be a better percentage to utilize since this is a historical number rather than an assumption based on 100%. The bottom line is that we prefer to be pleasantly surprised at additional savings than to be disappointed that projected savings do not fully materialize. In addition, there are no cost projections as to the cost of implementing the program which would be an offset to program savings



B. Implementation Costs. As previously alluded to and equally important is the recognition that any program 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. Likewise, the Division of Medical Assistance will have to have new staff to handle the increased number of children certified.
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 and feel much more comfortable to have 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. While there are indications that there would be Federal participation if the program were properly structured, we would not feel comfortable with actually moving forward without definitive policy statements from the Federal Office of Child Support Enforcement.

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. North Carolina's Health Choice for Children Policy regarding the IV-D program is that a family with a medical support order for a child must make an appointment with the IV D agency if the non-custodial parent is not complying with the order. That is the extent of what is required in large part because it was felt that if the goal of the program is to insure children, investigatory barricades to coverage should not be imposed.

As NC Health Choice began, the primary goal was to find and enroll children and to simplify access for children to the program. As information was gathered from potential applicants, over and over the story was heard that families would not apply if they had to get IV-D involved because they were attempting to protect children from abusive persons or drug addicted persons or persons from whom the family was hiding. To involve IV-D was to involve an absent and often undesirable parent in the child's life. This story was repeated by grandparents who were raising children as well as custodial parents.

Several states, such as Virginia and West Virginia, attempted to actively involve IV-D from the beginning of their programs. They initially had a very difficult time enrolling children and retaining them. They softened their IV-D stance and were able to increase the number of uninsured children covered.

North Carolina law currently makes no provision for anyone to fully "buy-in" to the NC Health Choice for Children program. If that is a desirable program change, it would likely be best to allow any person in North Carolina to fully purchase NC Health Choice or to pay premiums on a sliding scale based on income above 200% of poverty, and to not simply confine this to IV-D families.

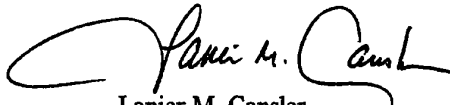
2. Legislation cannot be introduced in this session. Therefore, it will be the Long Session of 2005 General Assembly before any recommendation could be considered by the Legislature. This delay will give the Department time to fully explore different approaches and select one that is effective, yet simple 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, even after factoring in ancillary program costs. 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, clear and definitive Federal policy statements on these issues and the amount of Federal participation in program costs will have very significant impact on the Department's final recommendations to the North Carolina General Assembly.

We certainly 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,



Lanier M. Cansler

LMC:ds

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ACKNOWLEDGMENTS

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