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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
26 FEDERAL PLAZA
NEW YORK, NEW YORK 10007

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MAY 24 1976

C. 2475
Mr. William Toby, Acting Regional Commissioner
Social and Rehabilitation Service
Region II
Department of Health, Education and Welfare 1378
26 Federal Plaza
New York, New York 10007

Dear Mr. Toby:

During our review of the system for managing spend-down payments by the medically needy, we noted a matter which we believe warrants your attention.

In New York State, the medically needy may have all or part of their medical expenses paid for under Medicaid. Those medically needy whose income and resources are above a State prescribed level must first incur a certain amount of medical expense - the "spend-down" amount - before they can receive assistance under Medicaid. In other words, these amounts are not eligible for Federal financial participation. Federal regulations provide that the payment of this spend-down amount is a matter between the medically needy and the provider of medical assistance.

New York State, however, has been claiming Federal financial assistance for spend-down amounts relating to medical expenses incurred by these medically needy at municipal and voluntary hospitals in New York City. Such Federal financial assistance amounted to about \$1 million for voluntary hospitals during fiscal year 1975. Based on actual spend-down amounts billed by municipal hospitals for the 6-month period October 1975 through March 1976, we estimate Federal financial assistance for a 12-month period to be about \$3 million.

The passing on of costs incurred by these medically needy for Federal financial participation was previously identified in

--an August 20, 1969, audit report by the HEW Audit Agency,

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--a November 26, 1973, audit report by the New York State Office of the State Comptroller, and

--a June 4, 1974, joint audit report by the New York State Departments of Social Services and Health and HEW's Social and Rehabilitation Service.

The State Comptroller's report estimated that, since the inception of the Medicaid program in 1966 through September 1972, this has resulted in the overpayment of \$3.7 million by the Federal Government. New York State subsequently adjusted its December 1973 quarterly expenditure claim by \$3,701,500.

This report also recommended that "****future Medicaid claims for the cost of inpatient hospital care provided to patients with excess income should be submitted only after deducting that portion of the cost required to be paid by the recipient."

In its reply to a similar recommendation in the joint audit report, the city said that its method of billing the State for the cost of uncollected spend-down amounts is appropriate, and that the city "****shall continue to treat these cases in this manner until such time as we are notified, officially, of this major change in State policy." New York State has not made any change in this policy.

The Suffolk County Health District has also been receiving Federal financial assistance for spend-down amounts. About \$66,000 was involved in Suffolk in fiscal year 1975 of which the Federal share was \$33,000. As a result of our audit work Suffolk's Medical Assistance Administrator is in the process of changing this reimbursement practice.

Suffolk County and New York City Departments of Social Service collect some spend-down amounts from patients. However, the amounts collected are small. Suffolk County collected about \$31,000 on fiscal year 1975 accounts. This is 47 percent of the total spend-down liability for that year. New York City collections for voluntary hospitals for a 1 year period and municipal hospitals for an approximate 5 year period amounted to about \$514,000 or an overall 5 percent collection rate. Medicaid is credited the spend-down amounts collected by both New York City and Suffolk County.

Regardless of the amount collected, the Federal Government is still being billed the gross amount, subsequently being credited by whatever collections are made; however, this is contrary to Federal regulations - that is the amount billed should be net of spend-down.

Conclusions and Recommendations

State and local governments can choose, if they wish, to reimburse hospitals for spend-down amounts, however, these amounts are not eligible for Federal financial assistance.

We discussed this matter with your associates. They said that the State would be asked to explain why this is happening and what steps the State will take to stop it. We recommend that you require the State not to submit spend-down amounts for Federal participation. We also recommend that you review Medicaid payments back to October 1972 to identify and collect monies owed the Federal Government as a result of this practice.

The following State, local, and other Federal officials have been sent copies of this letter.

Mrs. Bernice L. Bernstein,
Regional Director, Region II
U.S. Department of Health, Education and Welfare

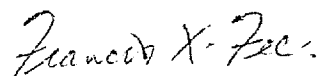
Mr. Bernard M. Luger, Regional Audit Director
U.S. Department of Health, Education and Welfare

Mr. Philip Toia, Commissioner,
New York State Department of Social Services

Mr. J. Henry Smith, Administrator/Commissioner,
Human Resources Administration
City of New York

Please advise us on what you have done or plan to do.

Sincerely yours,



Francis X. Fee
Regional Manager