

*State of New Jersey*  
*Commission of Investigation*



Immediate release  
April 18, 2007

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# **SCI FINDS FRAUD, WASTE IN N.J. CHARITY CARE PROGRAM**

TRENTON — The State Commission of Investigation (SCI) today issued the report of an investigation into the fiscal and operational integrity of New Jersey’s Charity Care hospital-subsidy program, concluding the state is losing tens of millions of dollars every year through fraud and the failure to pursue third-party claims.

“Charity Care is highly vulnerable to recipient fraud because the two state agencies that administer the program – the Department of Health and Senior Services and the Department of Human Services – have no effective mechanism to detect such

fraud and do not actively pursue credible complaints or suggestions of fraudulent activity in the program,” the report states.

The Commission itself investigated allegations of fraud, including tips that had been brought to the state’s attention but lay dormant for months and even years, and identified approximately \$1 million in medical services received by individuals who did not legally qualify for coverage under Charity Care.

The Commission also found that the state has missed the opportunity to recover millions more due to failure to pursue claims that should have been paid by private insurance carriers, by proceeds from settlements of civil litigation, or by other supplemental health-care programs, such as Medicare and Medicaid.

Charity Care provides a safety net for more than 300,000 indigent and uninsured New Jersey residents each year. Last year, the state and federal government allocated a combined sum of \$583.4 million to reimburse acute-care hospitals for a portion of the costs incurred by providing Charity Care.

In addition to fraud and unwarranted claim payments, the Commission found that language inserted in the state budget since FY2005 has skewed the Charity Care formula, essentially voiding changes made to it in 2004 that were supposed to ensure that hospitals with the heaviest share of the Charity Care burden would receive the largest subsidies.

“The language enables certain hospitals that experience a drop in the dollar value of Charity Care services provided to reap beneficial subsidies while those with increased Charity Care costs face reductions – exactly the reverse of how the program is supposed to function,” the report states.

One byproduct of this manipulation of the Charity Care formula has been to render largely irrelevant a portion of the work done by a unit within the Department of Health and Senior Services whose bureaucratic mission includes determining each hospital's share of Charity Care funding on an annual basis. For the past three years, these calculations have been superseded by budget language.

In order to restore integrity to the program, the Commission recommended a number of legislative and regulatory remedies, including:

- The state should move immediately to identify and recover money from claims improperly or inappropriately billed to Charity Care and to equip the program with adequate safeguards against further abuse.
- Establishment of an effective mechanism to investigate Charity Care fraud.
- Expansion of the scope of Charity Care claim audits.
- A feasibility study on the issuance of distinctive numbers to Charity Care recipients for use in a centralized registry to determine whether it would be practical and cost-effective.
- Consideration should be given to returning to the statutorily-mandated formula for future subsidy distributions, and in the event this may not be fiscally feasible, that the development of an entirely new system of subsidizing hospitals for the Charity Care burden be considered.



*The State Commission of Investigation is an independent New Jersey watchdog agency established in 1968 to investigate organized crime and corruption, waste of tax money and other abuses of the public trust. Copies of reports are available at the Commission's offices or via its Web site at [www.state.nj.us/sci](http://www.state.nj.us/sci).*