In April 1998, HHS began an intergovernmental transfer (IGT) arrangement with government-operated nursing facilities. The arrangement increases Medicaid dollars received from the Federal government. First, HHS estimates the difference between the maximum Medicare rate and the Medicaid rate paid to all nursing facilities (governmental and private). Next, this amount is distributed to governmental nursing homes. The nursing homes keep a participation fee, and transfer the remainder back to HHS. The funds are deposited into the State General Fund to reimburse the matching dollars used for the initial payments, and the remainder (the Federal portion) is deposited into the Nebraska Medicaid Intergovernmental Trust Fund (formerly the Nebraska Health Care Trust Fund). These funds are used for various purposes, including grants to nursing facilities (see graph below for nursing facility conversion grant distributions).

On January 12, 2001, The Health Care Financing Administration (HCFA), the federal regulatory agency for Medicaid, issued revisions to the upper payment limitations that will significantly limit the aggregate Medicaid payments to government facilities. The new regulations permit a transition period, during which the financial impact gradually phases in and is fully effective on October 1, 2008. The U.S. Department of Health and Human Services Office of Inspector General (OIG) estimates that during the transition period the Federal Government will reduce Medicaid payments to Nebraska by $142 million dollars. Once the regulatory changes are fully implemented the OIG estimates additional reductions of $44 million annually. In addition, the OIG recommended HCFA require States to assure that enhanced payments will be retained by providers and used to provide services to Medicaid-eligible individuals. In addition, the OIG recommended all Medicaid payments returned by providers to the State be treated as refunds and consequently used to offset Medicaid expenditures.

Our report included eight Comments and Recommendations outlining various concerns. The Comments and Recommendations were based upon auditing standards relating to internal controls and compliance with State laws. Specific areas of concern included:
- Revised Federal regulations will significantly impact IGT funds available. The reduction in Federal funds for the biennium including fiscal years 2004 and 2005 totals $20 million. The Inspector General recommends IGT funds returned to the State be treated as refunds and offset against Medicaid expenditures.
- HHS did not have adequate support for $26,696,299 in adjustments used to calculate the December 1999 IGT. An error in the calculation of the October 2000 transfer resulted in $3,188,208 being over charged to the Federal government.
- Our prior report recommended a $1,450,104 overcharge to the Federal government be reimbursed. HHS indicated the next IGT would be adjusted to correct the error; however, no reimbursement or adjustment was made.
- Regulations in effect for the April 1998, October 1998, and December 1999 IGT’s required estimated amounts be compared to final calculations and necessary adjustments be made to the subsequent distribution. HHS has not performed these reconciliations and no adjustments have been made.
- A facility participated in the December 1999 transfer but not the October 2000 transfer. Our prior report noted this same facility participated in April 1998 but not October 1998.
- Investment income of $45,471 from the Nebraska Medicaid Intergovernmental Trust Fund and $117 from the Nebraska Tobacco Settlement Fund was not transferred to the Nebraska Health Care Cash Fund as required by statute.
- One facility tested did not provide the 20% match required of proprietary facilities receiving conversion grants.
- The December 1999 IGT was calculated in accordance with amendments to regulations which were not approved.

We have detailed our findings and the System’s responses in the Comments and Recommendations section of the report. See our website at www.auditors.state.ne.us.