

**ADVISORY LETTER
OF THE
NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NURSING FACILITIES
INTERGOVERNMENTAL TRANSFERS**

**FOR THE PERIOD JANUARY 1, 2001
THROUGH DECEMBER 31, 2002**

MARCH 18, 2003

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NURSING FACILITIES INTERGOVERNMENTAL TRANSFERS

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Dear Mr. Curtiss:

In accordance with Nev. Rev. Stat. Section 84-304 R.S.Supp., 2002, we have performed certain procedures enumerated below for the Nebraska Health and Human Services System (HHSS) – Nursing Facilities Intergovernmental Transfers. We conducted the procedures in accordance with *Government Auditing Standards*.

The scope of the procedures was the period January 1, 2001 through December 31, 2002. The objectives of the procedures were to determine the transfers were correctly calculated, recorded, and reported in accordance with State and Federal regulations.

Summary of Results

We performed certain procedures we considered necessary to meet the objectives enumerated above. Those procedures consisted primarily of reviewing accounting records, obtaining an understanding of internal control procedures and accounting systems, inquiry of management, and tests of transactions. Based on the procedures performed, we noted the October 2001 transfer was incorrectly calculated resulting in \$143,546 due the Federal Government. For more information see the Testing and Comments section of this letter.

We compiled the accompanying financial data on the schedules and charts on pages 5 through 7 from the records of the Nebraska Health and Human Services System. We have not audited, examined, or reviewed the accompanying data and, accordingly, do not express an opinion or any other form of assurance on this data.

This advisory letter is intended for the information of the Nebraska Health and Human Services System; however, this advisory letter is a matter of public record and its distribution is not limited.

Pat Reding, CPA

March 18, 2003

Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NURSING FACILITIES INTERGOVERNMENTAL TRANSFERS

BACKGROUND

In April 1998, HHSS began an intergovernmental transfer (IGT) arrangement with government-operated nursing facilities. The arrangement involves creating a proportionate share pool to increase Medicaid dollars received from the Federal government. HHSS estimates the difference between the maximum Medicare rate and the Medicaid rate paid to all nursing facilities (governmental and private). This amount is then distributed to governmental nursing homes. The nursing homes, after keeping a participation fee, are required to transfer the remainder back to HHSS. The funds are deposited into the State General Fund to reimburse the matching dollars used for the initial payment and the remainder (the Federal portion) is deposited into the Nebraska Medicaid Intergovernmental Trust Fund. Funds from the IGT and interest earnings are utilized as directed by the Nebraska Health Care Funding Act.

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 include a transition period, during which the financial impact would be gradually phased in and become fully effective on October 1, 2008.

MISSION STATEMENT

“We help people live better lives through effective health and human services.”

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TESTING AND COMMENTS

In performing the procedures related to the advisory service objectives enumerated in our transmittal letter, we performed certain testing and noted certain matters involving internal control and other operational matters that are presented here. Comments and recommendations are intended to improve internal controls, ensure compliance, or result in operational efficiencies. It should be noted this advisory letter is critical in nature since it only contains our comments and recommendations on the areas noted for improvement.

Our procedures were as follows:

1. We tested the intergovernmental transfers to determine transfers were correctly calculated and recorded in accordance with State and Federal regulations.

HHSS methodology for the October 2001 and October 2002 transfers involved calculating the difference between adjusted Medicare and Medicaid rates for each level of care multiplied by the days of service. This difference was then totaled for all nursing facilities and the Medicaid total was adjusted to obtain the proportionate share pool amount. An adjustment is made to the pool to subtract payments made to facilities selecting the optional participation fee. The pool was distributed to the governmental facilities based on each facility's percentage of Medicaid days of service. We tested the calculation of the pool for October 2001 and October 2002. We tested the IGT payments to the nursing facilities and the transfer from the nursing facilities to the State to determine the correct amount, adjusted for the participation fee, was returned to the State and the proper amounts were deposited to the General Fund and the Medicaid Intergovernmental Trust Fund based on the Federal participation rate.

IGT was not calculated correctly for October 2001

Good internal control requires procedures to ensure amounts are adequately supported and calculations are accurate. The methodology used to determine the adjusted Medicare rate includes a calculation to adjust the labor component. The labor/non-labor percentages are documented in the Federal Register.

During our testing of the October 2001 IGT, we noted the percentage used to determine the labor portion of the Medicare rate was incorrect. The HHSS used 73.588% for the labor component, instead of 75.379% as stated in the Federal Register. We recalculated the Medicare rates and the difference between Medicaid and Medicare for all public nursing facilities and determined the HHSS had overstated the allowable IGT by \$241,052. As a result, the Federal share of \$143,546 should be returned to the Federal government. A similar finding was noted in our prior report. We did not recalculate the amount for private nursing facilities as there was a ceiling on the difference based on the upper payment limit.

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TESTING AND COMMENTS

(Concluded)

We recommend the HHSS implement procedures to ensure the IGT calculation is accurate and rates used are correct. We further recommend the Federal government be reimbursed the \$143,546 owed them.

HHSS' Response: The Department agrees with this finding. In the calculation the incorrect percentage was used. The overstated amount will be corrected in the next Intergovernmental Transfer prepared by the Department.

2. We reviewed transfers related to the Nebraska Medicaid Intergovernmental Trust Fund and whether they were properly recorded and made in accordance with Neb. Rev. Stat. Sections 71-7608 and 71-7611 R.S.Supp., 2002.
3. We compiled the accompanying schedules as described in the Table of Contents.

Draft copies of this report were furnished to HHSS to provide them an opportunity to review the advisory letter and to respond to our comment and recommendation. All formal responses received have been incorporated into this advisory letter. Responses have been objectively evaluated and recognized, as appropriate, in this advisory letter. Responses that indicate corrective action has been taken were not verified at this time.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
NURSING FACILITIES INTERGOVERNMENTAL TRANSFERS
SCHEDULES OF ACTIVITY

January 1, 2001 through December 31, 2002

INTERGOVERNMENTAL TRANSFERS

	October 2001	October 2002	Total
Proportionate Share Pool	\$ 101,168,664	\$ 58,586,661	\$ 159,755,325
Less: Participation Fee to Nursing Homes	(480,000)	(470,000)	(950,000)
Transfer Back to State	100,688,664	58,116,661	158,805,325
Deposit to General Fund to Repay Matching Dollars	(40,922,725)	(23,715,880)	(64,638,605)
Total Federal Funds returned to State	\$ 59,765,939	\$ 34,400,781	\$ 94,166,720
Deposit to:			
Nebraska Medicaid Intergovernmental Trust Fund	\$ 50,565,939	\$ 34,400,781	\$ 84,966,720
Health Care Cash Fund	9,200,000	-	9,200,000
Total	\$ 59,765,939	\$ 34,400,781	\$ 94,166,720

NEBRASKA MEDICAID INTERGOVERNMENTAL TRUST FUND

	Trust Fund 6264
Fund Balance January 1, 2001	\$ 109,990,682
Receipts:	
IGT Deposits	-
Net Investment Income	78,374
Transfers In, from Health Care Cash Fund	215,240
Transfers Out, to Health Care Cash Fund	(123,845)
Fund Balance June 30, 2001	\$ 110,160,451
Receipts:	
IGT Deposits	50,565,939
Net Investment Income (Loss)	(823,867)
Federal Deferral on October 2001 IGT (exceed Upper Payment Limits)	(5,438,841)
Transfers Out, to Health Care Cash Fund	(30,000,000)
Transfers Out, to HHSS Finance & Support Cash Fund	(5,846,593)
Fund Balance June 30, 2002	\$ 118,617,089
Receipts:	
IGT Deposits	34,400,781
Net Investment Income	(6,258,169)
Transfers Out, to Health Care Cash Fund	(28,000,000)
Fund Balance December 31, 2002	\$ 118,759,701

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
 NURSING FACILITIES INTERGOVERNMENTAL TRANSFERS
INTERGOVERNMENTAL TRANSFERS - CUMULATIVE
 April 1, 1998 through December 31, 2002

	State Share	Federal Share	Total
April 1998	\$ 17,584,534	\$ 27,701,416	\$ 45,285,950
October 1998	34,906,410	55,665,489	90,571,899
December 1999	35,623,387	55,438,440	91,061,827
October 2000	34,160,515	52,059,867	86,220,382
October 2001	40,922,725	60,245,939	101,168,664
October 2002	23,715,880	34,870,781	58,586,661
Total Increase in Medicaid due to IGT	186,913,451	285,981,932	472,895,383
Less: Participation Fees to Nursing Facilities	-	(2,870,000)	(2,870,000)
Total Transferred Back to the State	186,913,451	283,111,932	470,025,383
State Share returned to General Fund	(186,913,451)		(186,913,451)
State Medicaid Matching Provided	\$ -		
Federal Deferral on October 2001 IGT		(5,438,841)	(5,438,841)
Federal Funds to State		\$ 277,673,091	277,673,091
Investment Income Medicaid Intergovernmental Trust Fund			(627,765)
Available Funds			277,045,326
Transfers to:			
Nursing Facility Conversion Cash Fund			(54,611,766)
Nebraska Health Care Cash Fund			(72,776,522)
HHSS Finance & Support Cash Fund			(5,846,593)
Children's Health Insurance Cash Fund			(25,050,744)
			(158,285,625)
Nebraska Medicaid Intergovernmental Trust Fund Balance, December 31, 2002			\$ 118,759,701

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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Disposition of Available Funds
April 1, 1998 through December 31, 2002

