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**Advisory Letter of the  
 Nebraska Health and Human Services System (HHSS)  
 Nursing Facilities Intergovernmental Transfers  
 For the Period January 1, 2001 through December 31, 2002**

**Report Highlights**

*Issued April 2003*

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

The Intergovernmental Transfer for October 2001 was not calculated correctly.

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.

**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.**

The Advisory Letter was dated March 18, 2003. We have detailed our findings, including responses from the HHSS, in the Testing and Comments section of the report. See our website at [www.auditors.state.ne.us](http://www.auditors.state.ne.us).

