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## Report Highlights

# Accuracy of Medicaid Rates for Nursing Facilities

*Louisiana Department of Health*

Audit Control # 40160021

Performance Audit Services • November 2017

## Why We Conducted This Audit

We conducted this audit to evaluate the processes the Louisiana Department of Health uses to ensure the accuracy of Medicaid rates to nursing facilities. Payments to the approximately 260 private Medicaid nursing facilities in Louisiana have increased every year, even though their occupancy rates have generally remained the same and they continue to rank poorly in regards to quality of care. Nursing facility rates increased 54%, from \$112.34 in 2006 to \$172.82 in 2016, while occupancy rates increased by less than 1%. During this same timeframe, nursing facilities also received \$8.7 billion in Medicaid payments.

## What We Found

Overall, we found that the Louisiana Department of Health (LDH) needs to strengthen the processes it uses to ensure the accuracy of Medicaid rates to nursing facilities. Specifically, we identified the following:

- **In calculating nursing facility rates, state law requires that LDH include the acuity of all residents. Including only Medicaid residents in the Medicaid rate, similar to other states, would have saved approximately \$19.7 million in payments to nursing facilities in fiscal year 2016.** LDH uses a case mix reimbursement methodology outlined in state law that Myers and Stauffer uses to calculate Medicaid rates. However, unlike other states, Medicaid rates in Louisiana are based on all nursing facility residents, including private pay and Medicare, who typically have higher acuity levels.
- **For the capital component of the rate, state law requires that LDH use a minimum rental factor of 9.25% to calculate a nursing facility's fair rental value, which inflates the rate.** Other states use rental factors ranging from 6 to 9%. Using the actual Treasury Bond of 2.5% plus a risk factor of 2.5% would save approximately \$57 million per year.
- **Because LDH does not require Postlethwaite & Netterville (P&N) to conduct full-scope audits on all nursing facilities every year, nursing facility reimbursement rates are based on potentially inaccurate cost information.** Full-scope audits are the only type of audit that includes the review of related party transactions. In fiscal year 2014, 52 facilities with full-scope audits disclosed \$39,426,958 in related party transactions. Of this amount, \$14,594,216 (37%) was disallowed and not used to calculate rates.
- **LDH did not hold nursing facilities accountable when they submitted late cost reports and has not developed penalties for nursing facilities with repeat audit findings.** While LDH is authorized to assess penalties for late cost reports, it did not assess \$274,864 in penalties to 16 facilities from fiscal years 2014 to 2016. In addition, although 57% of reviewed facilities had repeat cost report audit findings in fiscal year 2014, LDH has not developed penalties for facilities with repeat findings.

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## What We Found (Cont.)

- **LDH has not adequately addressed resident trust fund findings in the cost report audits.** P&N audits identified 208 residents who exceeded the resource limit to be eligible for Medicaid for at least one month in fiscal year 2014. As a result, \$3.2 million in Medicaid payments were made for ineligible recipients in fiscal year 2014, and LDH did not recoup any of these payments.
- **LDH should consider decreasing the threshold it uses to adjust rates when it finds documentation errors in resident files. Currently, LDH only adjusts nursing facility reimbursement rates when errors related to acuity exceed 25% of the total files reviewed.** Decreasing this threshold to 20% could have resulted in up to \$532,480 in savings in fiscal year 2016.
- **LDH's Program Integrity Section does not conduct any activities to identify improper payments to nursing facilities.** External contractors identified approximately \$271,000 in improper payments to nursing facilities between 2013 and 2016.
- **LDH has established a sufficient process to ensure that nursing facilities spend the required amount on patient care.** In fiscal years 2014 and 2015, LDH required that nursing facilities repay \$8.7 million in Medicaid funds because they did not spend the required percentage on patient care.