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School of Public Health
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State Policies to Improve Transparency of Nursing Home Ownership and Related-Party Transactions

Policy Brief

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November 2025

Summary

Nursing home financial practices obscure the true profitability of the industry and undermine the effectiveness of state and federal oversight. Studies indicate that as much as two-thirds of industry profits are hidden through "tunneling"—self-dealing transactions between nursing homes and related entities controlled by the same owners.[1] These arrangements, such as inflated lease or management fees, divert taxpayer-funded Medicaid payments away from resident care and toward investor profits.

Lack of transparency in ownership and related-party transactions makes it difficult for regulators to detect self-dealing, set appropriate Medicaid reimbursement rates, and hold accountable those responsible for poor quality or financial instability. These financial maneuvers have real consequences: research links private equity ownership and related-party profit extraction to higher mortality rates, reduced staffing, and increased risk of bankruptcy or closure.[2]

State-level Medicaid cost reporting requirements can play a critical role in improving accountability. While federal rules require some disclosure of ownership, they do not mandate reporting of related-party transactions, nor do they identify the "ultimate owner" controlling a facility. Analysis of cost-reporting requirements in Massachusetts, Illinois, California, and Connecticut shows wide variation in transparency and audit practices. Studying variations in state-level cost reporting requirements can identify which strategies are most effective, feasible, and equitable in practice. A related brief discusses federal policy options to improve transparency of nursing home ownership and finances.

Best Practices Overview

States should strengthen **transparency, accountability, and oversight** of nursing home finances by requiring:

- **Ownership disclosure:** Facilities must report the identities and ownership percentages of all direct and indirect owners, identifying the parent owner of a chain and all other facilities within the chain.
- **Related-party transparency:** Facilities must disclose the identities of related parties and amounts of related-party transactions—including leases, management fees, debt, and asset sales. Both individual and consolidated balance sheets (covering the facility and related parties) should be submitted.
- **Audit and enforcement:** Medicaid cost reports should undergo routine and compliance-triggered audits. States should enforce accuracy through a range of penalties, including fines, payment suspensions, exclusions, or fraud actions.
- **Public access:** Cost reports must be made publicly available in searchable, downloadable formats to enable oversight by policymakers, researchers, and the public.

Background: Nursing Home Profitability

In 2019, 68% of profits in the nursing home industry were hidden. Nursing homes are able to inflate their costs by overpaying related companies within the same organizational umbrella for real estate or management services—a practice known as tunneling or self-dealing.[1] Yet, investors have acquired nursing homes despite their thin reported margins and claims of underpayment by state Medicaid programs.[3] Recent research suggests that the industry may be substantially more profitable than it appears due to pervasive tunneling of profits to related parties.[1]

Lack of transparency into nursing home ownership and finances allows owners to siphon public funds away from their intended purpose, which lowers care quality and increases the risk of bankruptcy or closure.[4] Moreover, profit tunneling makes it more difficult for state Medicaid programs to set appropriate payment rates and allocate scarce resources.

Tunneling of profits through related-party transactions not only wastes public resources, but it can also harm the well-being of nursing home residents. Related-party transactions such as real estate leases and management contracts can be inflated to above-market levels, which enriches corporate owners while leaving nursing homes in a financially precarious position. Numerous nursing home companies have filed for bankruptcy after being acquired by private equity firms, and residents have been shown to have poorer outcomes when funds are diverted to related-party profits instead of staffing and operations.[5] Research has shown that private equity acquisition of nursing homes leads to an 11% increase in patient mortality relative to other for-profit nursing homes.[6] Additionally, because nursing homes rely heavily on Medicaid payments, taxpayer dollars are wasted when owners tunnel profits to related-party entities instead of improving patient care.[7] To reap quick profits, investor practices such as tunneling, sales of real estate and assets, and staffing cuts can lead to reductions in care quality.

One way for states to improve the transparency of nursing home ownership and finances is to require detailed Medicaid cost reports, which would improve accountability in ownership and related-party payments.[3] Although federal nursing home ownership transparency rules require Medicare- and Medicaid-participating nursing homes to disclose their ownership structures, compliance has been incomplete, and nursing homes are not required to disclose related-party transactions.[8] The U.S. Government Accountability Office, the Medicaid and CHIP Payment and Access Commission (MACPAC), and others have noted the variability across states in the availability of nursing ownership information, and the unreliability of Medicare cost reports as a definitive source of information.[9,10] States can use their authority to set Medicaid cost reporting requirements to improve transparency and accountability.

We analyzed current cost reporting requirements for California,[i] Connecticut,[ii] Illinois,[iii] and Massachusetts[iv] to identify best practices in nursing home ownership and financial transparency. These states were chosen because each has adopted reforms aimed at increasing transparency of nursing home ownership and related-party transactions in their Medicaid cost reports and because they make the cost report data publicly available.

Medicaid Cost Report Requirements

Nursing home cost reports are detailed financial documents that nursing homes submit to state or federal agencies on an annual basis.[11] These reports provide information on the nursing home's revenues, expenses, ownership, and financial transactions. State and federal health care programs use cost reports to set reimbursement rates for Medicaid and Medicare, as well as to prevent fraud.[12] States may be interested in using these reports as tools for oversight, accountability, and transparency in how nursing homes allocate funds, particularly to their owners.[13] This includes preventing tunneling—a practice in which nursing home owners overpay their own companies for services, thus reducing money available for care. Cost reports may also be used to identify financial practices that impact resident outcomes.[14]

Medicaid cost reporting requirements for nursing homes vary significantly across states, despite similarities in general guidelines. This report analyzes nursing home cost reporting requirements in in California, Connecticut, Illinois, and Massachusetts, with a focus on the following key data elements: (1) Transparency of ownership and ownership percentages; (2) Transparency of related parties and related-party payments; and (3) Audit, enforcement, and public availability of cost reports.

1. Transparency of Ownership and Ownership Percentages

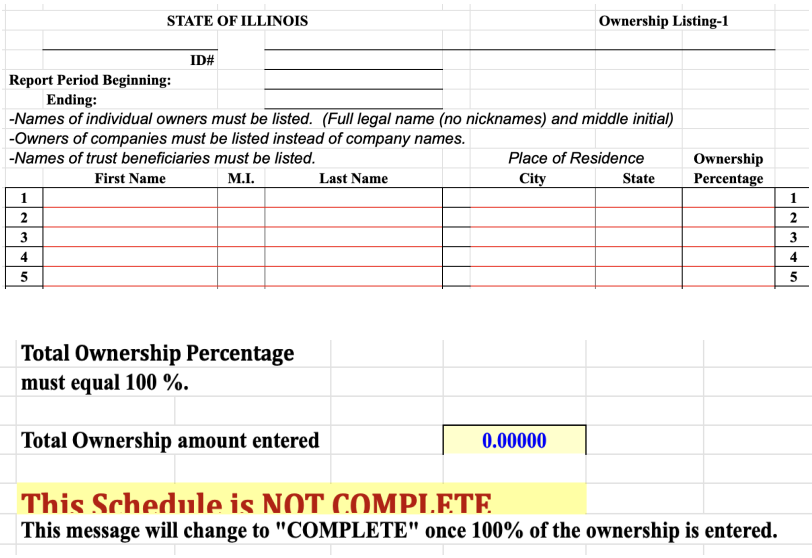
Ownership transparency requirements are designed to allow regulators and the public to understand who owns and exercises control over the nursing home facility. These ownership stakes are often obscured through complex corporate structures that hide the identity of the "ultimate owner" of the facility or chain of facilities. Under federal nursing home ownership transparency rules, Medicare- and Medicaid-participating nursing homes must publicly disclose information about their direct and indirect owners with stakes of 5% or more; the ownership structure and the persons in control, including directors, officers and managers; and any "additional disclosable parties."[15] However, the federal rules do not expressly require nursing homes to identify their ultimate owner.

All four states we reviewed require nursing homes to identify owners and specify their ownership stakes in Medicaid cost reports. States differed on whether nursing homes must report owners with smaller stakes (e.g., less than 5% interest), whether they must report direct and indirect owners, whether the ultimate "parent" owner must be identified, and whether ownership percentages are required to add up to 100%.

Illinois' cost reports require facilities to identify all individual and organizational owners by name and address. Owners of companies must be listed instead of the company name. Illinois requires reporting of "all individual owners and any individuals or organizations that are part of a limited liability company with ownership of that facility and the percentage ownership of each owner." With the exception of individual shareholders in a publicly held corporation, Illinois requires full disclosure of all ownership interests and prohibits undisclosed interests by mandating that

ownership percentages total 100% (Figure 1). In addition, Illinois requires related nursing facilities—those under common ownership with the reporting facility—be identified by name, city, and state.

Figure 1. Illinois Ownership Percentage Disclosure must total 100%, with individual owner names, rather than company names, disclosed. If ownership is held in a trust, the beneficiary's name must be listed. The form provides space to report up to 100 owners.



STATE OF ILLINOIS — Ownership Listing-1

ID#

Report Period Beginning:

Ending:

-Names of individual owners must be listed. (Full legal name (no nicknames) and middle initial)
-Owners of companies must be listed instead of company names.
-Names of trust beneficiaries must be listed.

	First Name	M.I.	Last Name	Place of Residence City	Place of Residence State	Ownership Percentage	
1							1
2							2
3							3
4							4
5							5

Total Ownership Percentage must equal 100 %.

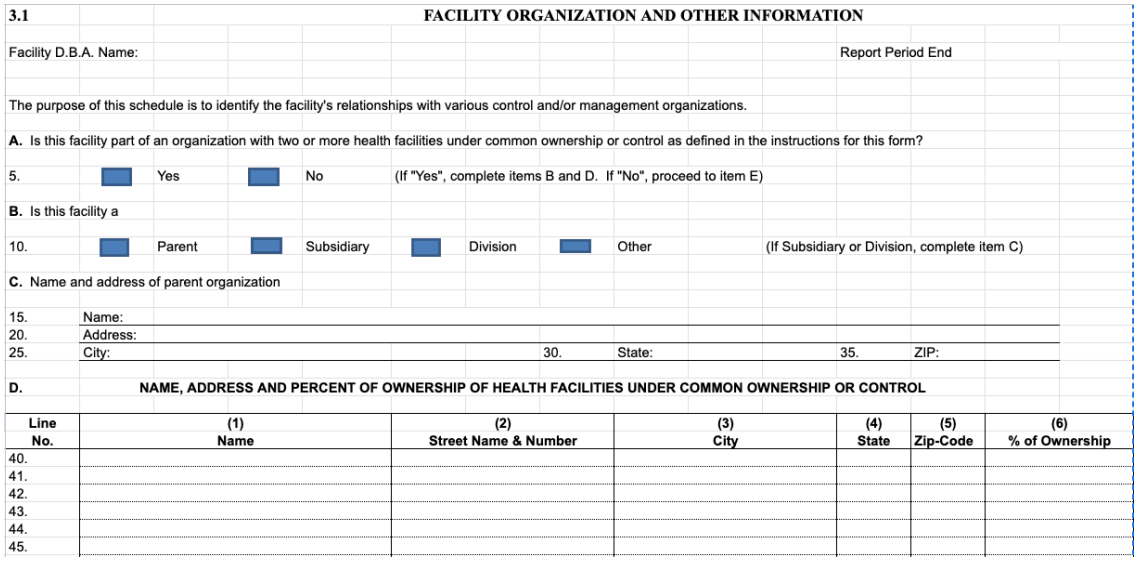
Total Ownership amount entered 0.00000

This Schedule is NOT COMPLETE

This message will change to "COMPLETE" once 100% of the ownership is entered.

As of January 1, 2024, California requires nursing facilities to report the name and address of the "parent organization" and the names of owners with a 5% or greater equity interest on the facility's cost reports. For facilities that are part of a chain consisting of two or more facilities under common ownership or control, nursing facilities must include the names, addresses, and ownership percentage of other facilities in the chain (Fig. 2). This is a useful provision to identify the ultimate parent or controlling owner of a large organization with multiple entities or facilities. California also requires identification of members of the nursing home's Governing Board, management company, and the owners of the management company with 5% or greater equity interest.

Figure 2. California requires identification of the "parent organization" for nursing facilities that are part of a chain of two or more facilities under common ownership, along with the names of other facilities in the chain.



3.1 FACILITY ORGANIZATION AND OTHER INFORMATION

Facility D.B.A. Name: Report Period End

The purpose of this schedule is to identify the facility's relationships with various control and/or management organizations.

A. Is this facility part of an organization with two or more health facilities under common ownership or control as defined in the instructions for this form?

5. ☐ Yes ☐ No (If "Yes", complete items B and D. If "No", proceed to item E)

B. Is this facility a

10. ☐ Parent ☐ Subsidiary ☐ Division ☐ Other (If Subsidiary or Division, complete item C)

C. Name and address of parent organization

15. Name:
20. Address:
25. City: 30. State: 35. ZIP:

D. NAME, ADDRESS AND PERCENT OF OWNERSHIP OF HEALTH FACILITIES UNDER COMMON OWNERSHIP OR CONTROL

Line No.	(1) Name	(2) Street Name & Number	(3) City	(4) State	(5) Zip-Code	(6) % of Ownership
40.						
41.						
42.						
43.						
44.						
45.						

Massachusetts cost reports require nursing facilities to report all facility owners and the owners' addresses, whether the ownership interest is direct or indirect, and the ownership percentage. In addition, Massachusetts requires facilities to report related nursing facilities, whether in-state or out-of-state, that are under common ownership as the reporting facility (meaning that they are owned directly or indirectly with at least a 5% interest by the facility's owners). These related facilities must be reported by name, provider or facility ID, facility address, name of owners, whether they are direct or indirect owners, and ownership percentage.

Connecticut requires entities organized as LLCs or partnerships to disclose each owner's name, business address, and ownership percentages. Entities that are organized as corporations must report this information for stockholders with 10% or more ownership stakes and identify the corporation's officers and directors.

Illinois and Massachusetts require reporting of all owners, regardless of the ownership percentage (except for individual shareholders of publicly traded companies). By contrast, California and Connecticut do not require reporting of owners with interests below a certain ownership percentage. This means that if the facility has numerous owners with below-threshold ownership interests, there is a risk of a large percentage of undisclosed ownership stakes. To clarify financial responsibility, states could consider eliminating the ownership percentage threshold for reporting, with exceptions for individual shareholders of publicly held corporations.

Best practices regarding transparency of ownership:

- **States should require cost reports that disclose owner identities, including individual owners, whether the interest is direct or indirect, and ownership percentages.**
- **Reporting facilities should identify the parent or ultimate owner with the highest organizational ownership interest.**
- **Nursing homes that are part of a chain of facilities under common ownership should identify and report the other facilities in the chain.**

2. Transparency of Related Parties and Related-Party Transactions

Reporting of financial and operational ties to related parties—those entities under common ownership or control as the nursing home—is necessary to allow regulators to gauge how much money is being transferred to related parties and to adjust Medicaid payment rates accordingly.

Under federal rules for Medicare Cost Reports, nursing homes are allowed to be reimbursed for costs of services or facilities provided by a related party, but only at the related party's actual cost, and not exceeding the market price of comparable items available from unrelated sources.[v] CMS explains, "The rationale behind this policy is that when you are dealing with a related organization, you are essentially dealing with yourself. Therefore, your costs are considered equal to the cost of the related organization."[13] Per CMS, a related-party transaction occurs when services, facilities, or supplies are furnished to the provider by organizations related to the provider through common ownership or control. Common ownership exists if an individual or individuals possess significant ownership or equity in the provider and the institution or organization serving the provider.[16] Although federal Medicare cost reports require disclosure of payments to related parties at cost, these data are widely viewed as unreliable and insufficiently detailed to detect inflated related party payments, in part because they are not subject to audit.[1] Thus, states have an opportunity to improve the detail and accuracy of related party transactions in Medicaid cost reports.

According to research based on Illinois's nursing home cost reports, the most common types of related party transactions involved real estate leases and management services.[1] Nationally, one-fifth of all nursing home revenues were paid to related parties. Moreover, for every dollar paid to related parties, approximately 40 cents constituted overpayments—that is, payments inflated above the related party's actual costs.

With more detailed cost reporting of related party payments, state regulators can flag excessive payments to a related company and adjust Medicaid payments to account for above-market payments to related parties. Without such detail, Medicaid nursing home rates may be inflated by excess payments to related companies.[1] For example, nursing home owners may transfer property to a related real estate holding company, which leases the property back to the facility at above-market rates. These financial maneuvers make the nursing home appear impoverished with

low or negative profit margins, but the profits are being transferred to related parties and captured by the owner.

State Cost Reporting of Related Party Transactions

All four states evaluated require nursing homes to identify related parties on their cost reports, but vary in the types of information required.

California requires facilities to report the names and addresses of related parties with whom they did transactions during the reporting period on Schedules 10.4(1) - 10.4(3) of the cost report. For each related party, facilities must report the number of individuals providing goods or services, the types of goods or services, whether the related party provides goods and services to non-related parties, and the percentage of revenue from non-related parties. The nursing home must report the related party transaction amount, the healthcare portion, the adjustment, amount claimed, and location (line number) on the balance sheet in Schedule 10.1.

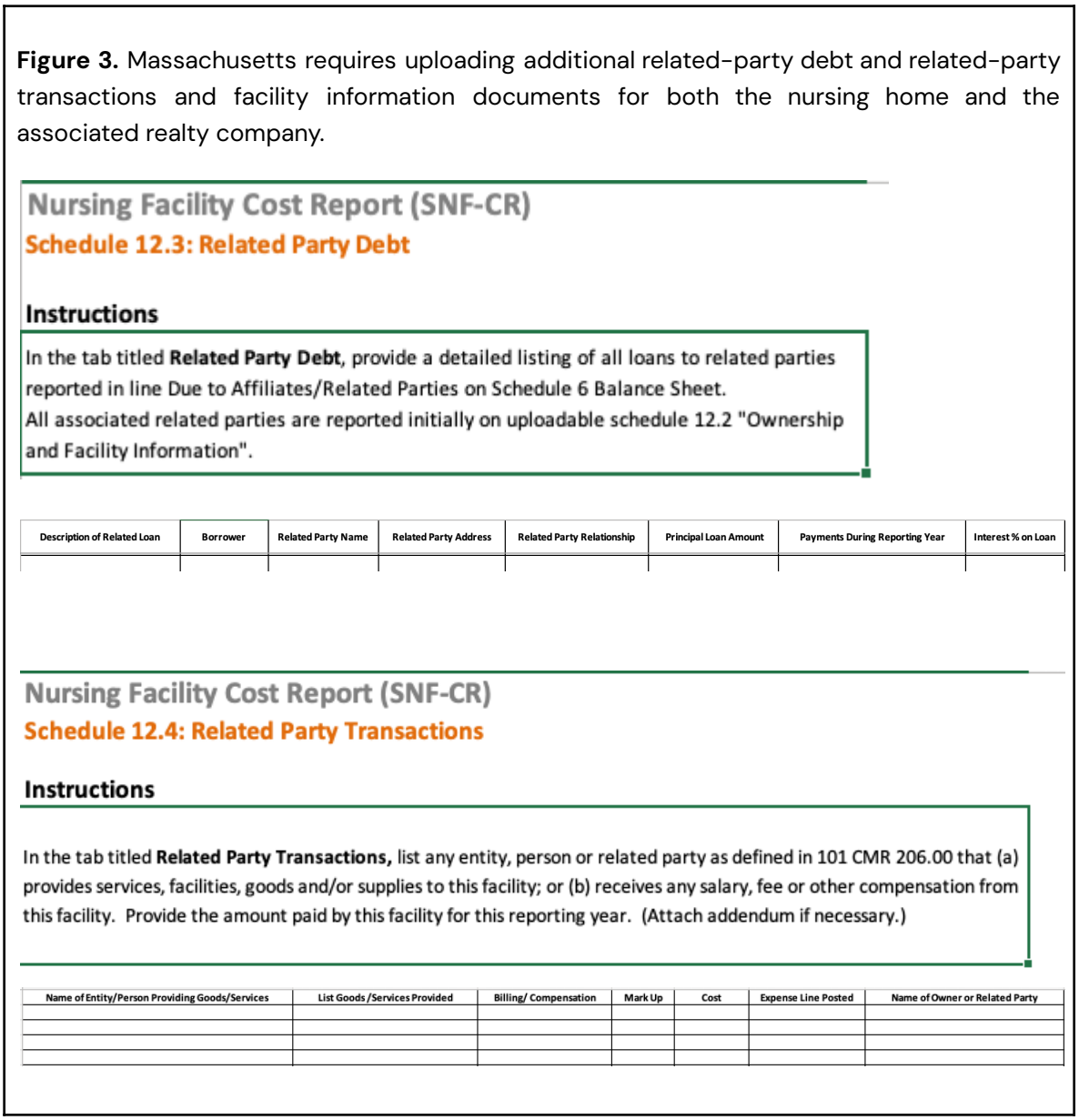
Connecticut requires nursing homes to provide the names of related parties or individuals (including those who are related by marriage or family relation, common ownership or control, or business association), their business address, a description of goods and services provided, and whether the related party provides goods or services to non-related parties. If the related party receives revenue from non-related parties, the corresponding percentage of the related party's revenue must be reported. For each related party transaction listed, the nursing home must list the transaction amounts and the actual cost to the related party, and where the costs are included in the annual cost report (by page and line number). Management services, administrator salaries, mortgages, loans, and rental payments involving related parties must be identified.

Illinois requires nursing homes to disclose names of related business organizations, the type of business, and rental/lease arrangements with related parties. Nursing homes must disclose the related-party transaction amounts, the actual costs to the related party, and the difference between the cost to the facility and the cost to the related party. Separately, rents and interest paid to related parties must be disclosed. Illinois requires nursing homes to report a balance sheet of assets and liabilities for the nursing facility, as well as a consolidated balance sheet that includes the assets and liabilities of the nursing home's related parties. As noted by researchers who used this data to estimate the extent of profit tunneling, "[t]his level of granularity allow[ed the researchers] to track assets and liabilities as they shift from the facility's balance sheet to that of the related party's."[1]

Massachusetts requires nursing homes to list the name of the persons or entities that provided goods or services to the facility, identify the goods or services provided, and the name of the owner or related party.[vi] Massachusetts requires the reporting of revenue and expenses from related businesses, as well as the details of related-party transactions. In addition, the nursing home must disclose the amount paid to the related party, the related party's cost, and the markup (the difference between the amount paid and the cost). Massachusetts requires reporting of related-party debt between a related party and the facility or any owners, including a description

of the loan, name of the borrower, related party name and address, relationship, principal loan amount, payments, interest, ownership, and facility information documents for both the nursing home and the associated realty company, as seen in Figure 3. This way, if both the nursing home and realty company have the same owners, regulators can easily note any related-party markups.

Figure 3. Massachusetts requires uploading additional related-party debt and related-party transactions and facility information documents for both the nursing home and the associated realty company.



Nursing Facility Cost Report (SNF-CR)

Schedule 12.3: Related Party Debt

Instructions

In the tab titled **Related Party Debt**, provide a detailed listing of all loans to related parties reported in line Due to Affiliates/Related Parties on Schedule 6 Balance Sheet.
All associated related parties are reported initially on uploadable schedule 12.2 "Ownership and Facility Information".

Description of Related Loan	Borrower	Related Party Name	Related Party Address	Related Party Relationship	Principal Loan Amount	Payments During Reporting Year	Interest % on Loan

Nursing Facility Cost Report (SNF-CR)

Schedule 12.4: Related Party Transactions

Instructions

In the tab titled **Related Party Transactions,** list any entity, person or related party as defined in 101 CMR 206.00 that (a) provides services, facilities, goods and/or supplies to this facility; or (b) receives any salary, fee or other compensation from this facility. Provide the amount paid by this facility for this reporting year. (Attach addendum if necessary.)

Name of Entity/Person Providing Goods/Services	List Goods /Services Provided	Billing/ Compensation	Mark Up	Cost	Expense Line Posted	Name of Owner or Related Party

Real Estate and Lease Transactions

One of the most common ways that nursing homes tunnel profits is through inflated lease payments or real estate transfers to related parties. Cost reports can require nursing homes to disclose the identity of the real estate buyer or lessor, whether or not they are a related party, and the lease or sale price of the real estate. This information can help states determine whether

nursing homes are paying above-market rents or otherwise transferring assets to related parties via real estate transactions, such as sale-leaseback transactions.

Illinois allows nursing homes to include actual rent or lease expenses paid to *unrelated* parties, but rents paid to *related parties* are not allowable expenses. Thus, Illinois cost reports (in Section X, page 11) require the nursing home to identify whether the real estate is owned by the operating entity, rented from a related party, or rented from an unrelated party. Nursing homes must also include the name of the party holding the lease. For sale-leaseback transactions, Illinois also disallows rental expenses in excess of the amount that would have been incurred if the property remained owned, as shown in Figure 4.

Figure 4. Excerpt of Illinois's 2025 cost report instructions for long term care and nursing facilities.

34. **Rent--Facility and Grounds:** Includes actual rent or lease expense paid to an unrelated party for the facility and grounds. Reasonable amounts expensed for the rental of care-related assets are allowable insofar as they represent arm's-length transactions between the owners of the property and the unrelated party claiming the expense.

    Rents paid to related organizations are not an allowable expense. The capital cost of the related organizations (i.e., depreciation, interest and real estate tax expense) must be itemized. See additional instructions relating to Schedule VII.

    Amortization of lease expense should be classified on this line also, and be detailed on Schedule XII, #8.

    For a sale and leaseback transaction, any rental expense in excess of the expense that would have been incurred if the provider had retained legal title to the property must be adjusted out of Schedule V.

In Connecticut, nursing homes must disclose if a related-party entity is involved in a lease and report the annual lease amount as a related-party transaction. Unlike Illinois, Connecticut does not disallow related-party lease amounts.

California requires nursing homes to report on whether any assets were disposed of during the cost-reporting period. If so, then the nursing home must submit a description of the asset, the date of sale, the proceeds of disposition, whether the asset was transferred to a related party, the book value of the asset on the date of transfer, and the party to whom the asset was transferred (Schedule 3.3). In addition, California requires nursing homes to indicate whether capital expenditures (for land, building, or major equipment) involved a related-party transaction. See Figure 5.

Figure 5. California Cost Report, Schedule 3.3, requires nursing homes to report asset dispositions including the book value and whether the asset(s) were transferred to a related party.

P.	**Were any assets disposed of during the reporting period?**
355.	☐ Yes ☐ No
If "Yes" attach a schedule showing: (a) description of asset, (b) date of sale, (c) date asset(s) acquired, (d) proceeds of disposition, (e) method of depreciation, (f) how gain or loss was computed, (g) where gain or loss is reflected in the report, (h) if asset(s) was transferred to a related party, give book value of asset(s) on transfer date and party to whom asset(s) was transferred.	

Massachusetts requires a separate realty company cost report for facilities that do not own their own real estate. The realty company cost report includes sections for summaries of long-term debt (such as mortgages), related-party debt, and related-party markup.

Best practices to improve the transparency of related parties and related-party transactions:

- **States should require disclosure of the names, addresses, owners, and amounts paid to related parties (including both the expense claimed and actual cost), as well as the nature of the transaction (e.g., debt, asset sale, lease payment, management service, or other service).**
- **States should require the submission of a balance sheet for the individual nursing home and a consolidated balance sheet that includes the nursing home and all related parties.**
- **States should require nursing homes to report the identity, ownership information, sales price, book value, and the amount of any mortgage or lease payment involving real estate assets on Medicaid cost reports. In addition, nursing homes should be required to identify whether the associated real estate company is a related party.**

3. Audit, Enforcement, and Public Availability

The accuracy, completeness, and usability of Medicaid cost report data depend on robust auditing, enforcement, and public disclosure. At the federal level, Medicare cost reports and nursing home ownership transparency data can be unreliable because they are not subject to audit.[10] When these records are subject to audit, such as audited financial statements or audits by state Medicaid authorities, facilities will invest more resources to ensure the accuracy of cost reports. For example, the presence of audits could encourage the use of certified public accountants (CPAs) to prepare the cost reports, instead of untrained administrative staff.

Audit Authority

Under the Medi-Cal Long-Term Care Reimbursement Act, the California Department of Health Care Services (DHCS) is required to conduct financial audits of cost data of the nursing home facility and home office (defined as the office of the controlling organization[17]) and to audit facilities at least once every three years to verify the accuracy of reported costs.[vii] Audit results are used to calculate adjustments to facilities' prospective payment rates and, if applicable, to seek recoupment of overpayments. California regulations also require facility-specific payment rates to be based on audited cost reports.[viii]

Connecticut's Department of Social Services' (DSS) Office of Quality Assurance conducts routine audits of nursing home cost reports. According to Connecticut's nursing home guidebook, all nursing homes that receive Medicaid payments are subject to audit, and any facility unable to substantiate the information submitted to the Department may have funds recouped.[18] DSS staff have reported that all nursing home cost reports are subject to full-scale audits by DSS's Quality Assurance Division. Roughly 60 facilities are audited annually, meaning that each facility faces an audit about once every 3–4 years. Some advocates have pressed for proposed legislation to expand this authority to allow forensic audits, which would enable deeper examination of related-party transactions.[19]

Illinois authorizes the Department of Healthcare and Family Services to conduct field audits of cost reports. Facilities are required to maintain their records for at least three years and provide them to the Department in the event of an audit. Failure to do so will result in withholding of Medicaid payments.

In Massachusetts, the Center for Health Information and Analysis (CHIA) and the Executive Office of Health and Human Services (EOHHS) can conduct Desk Audits or Field Audits of nursing facility cost reports.[ix] Nursing homes and related parties must submit supporting documentation upon request. CHIA may impose a range of penalties for nonreporting, falsification, or misrepresentation of cost reports, including fines, payment reductions, payment suspension, and removal from program eligibility.[x]

Enforcement of Cost Report Accuracy

Second, robust enforcement of the accuracy of Medicaid cost report information is needed to incentivize compliance and deter misrepresentation. Because cost reports are used to calculate governmental payment rates to nursing homes and other providers, material misrepresentations of the cost reports, including omitting and overpaying related parties to inflate facility costs, can amount to fraud and lead to liability under the federal False Claims Act and state law counterparts.[20,21,22] In addition, state Medicaid authorities should have a range of enforcement levers to ensure accurate, timely, and complete submission of cost reports–ranging from financial penalties–such as suspensions or reductions of payments–to program exclusions, in egregious cases. Authorities should have discretion to scale penalties to the violation. Penalties that are too

harsh (e.g., exclusion only) may result in underenforcement because states may not want to take enforcement action that threatens access to needed nursing home services.

In addition to fraud enforcement, the states reviewed had a range of penalties available to address missing or inaccurate cost report information, including fines and reductions or suspensions of Medicaid payments.

Public Availability

Further differences exist in how states and the federal government handle cost report submissions. Massachusetts and California, for example, require facilities to submit cost reports through an online portal. This system improves data validation and fraud prevention. Connecticut requires nursing home cost reports to be submitted via a portal maintained by a third-party vendor, Myers and Stauffer. By contrast, Illinois requires cost reports to be submitted as an Excel file via email, CD, or Microsoft OneDrive. In addition, a signed paper copy must be submitted via mail.

To maximize accountability, public transparency, and researcher access, states should post nursing home cost reports in publicly available, usable formats. States should provide a searchable database of ownership information, as well as up-to-date and historic cost reports that can be downloaded from public websites in standardized data formats. All the states reviewed make nursing home cost reports publicly available. Illinois' Department of Healthcare and Family Services posts long-term cost reports; California's HHS posts cost report data and HCAI publishes additional long-term care facility financial and ownership data; Massachusetts' CHIA provides downloadable cost reports for skilled nursing facilities and affiliated realty/management companies; and Connecticut's DSS posts annual nursing facility cost reports online.

Best practices for audit, enforcement, and public availability:

- **Medicaid cost reports should be subject to audit, including regular sample audits and audits in response to complaints or investigations.**
- **State authorities should have a range of enforcement options for inaccurate or incomplete Medicaid cost reports, including penalties, reductions or suspensions in payments, program exclusion, and fraud enforcement actions.**
- **States should make nursing home cost reports publicly available in searchable and downloadable formats.**

Summary of Best Practices

Transparency in nursing home ownership and financial reporting is essential to ensure accurate Medicaid payments and the efficient allocation of limited resources. Greater transparency strengthens accountability by exposing overpayments, profit-shifting among related parties, and identifying those responsible for staffing or quality deficiencies. Several states are advancing transparency through more detailed, auditable cost reports that improve oversight and help safeguard access to high-quality care. Examining these state approaches can reveal best practices for developing cost reports that more accurately reflect the realities of the industry.

1. **Transparency of ownership and ownership percentages:**
    a. States should require cost reports that disclose owner identities, including individual owners, whether the interest is direct or indirect, and ownership percentages.
    b. Reporting facilities should identify the parent or ultimate owner with the highest organizational ownership interest.
    c. Nursing homes that are part of a chain of facilities under common ownership should identify and report the other facilities in the chain.
2. **Transparency of related parties and related party transactions:**
    a. States should require disclosure of the names, addresses, owners, and amounts paid to related parties (including both the expense claimed and the actual cost), as well as the nature of the transaction (e.g., debt, asset sale, lease payment, management service, or other service).
    b. States should require the submission of a balance sheet for the individual nursing home and a consolidated balance sheet for the nursing home and all related parties.
    c. States should require nursing homes to report the identity, ownership information, sales price, book value, and the amount of any mortgage or lease payment involving real estate assets on Medicaid cost reports. Nursing homes should also be required to identify whether the associated real estate company is a related party.
3. **Audit, enforcement, and public availability:**
    a. Medicaid cost reports should be subject to audit, including regular sample audits and audits in response to complaints or investigations.
    b. State authorities should have a range of enforcement options for inaccurate or incomplete Medicaid cost reports, including financial penalties, reductions or suspensions in payments, program exclusion, and fraud enforcement actions.
    c. States should make nursing home cost reports publicly available in searchable and downloadable formats.

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i. In 2021, California passed SB 650, which significantly expanded the reporting requirements for nursing homes. In addition to cost reports, nursing homes must report an "Annual Consolidated Financial Report (ACFR) including consolidated and individual financial statements, patient census, audit report, visual organizational structure depicting both related parties and unrelated parties that are paid more than $200,000 annually by the nursing facility. https://hcai.ca.gov/data/submit-data/financial-reporting/snf-acfr/ The ACFR is separate from the Medi-Cal Cost reports. However, as of Jan. 1, 2024, Medi-Cal Cost reports include additional information on related parties and related party expenses, pursuant to AB 1953, codified at Cal. Health & Safety Code § 128734. Guidance on the various reporting requirements under SB 650 and AB 1953 are available at https://hcai.ca.gov/wp-content/uploads/2025/03/LTC-Tips-and-Reminders-9.pdf

ii. In 2014 Connecticut enacted PA 14-55, "An Act Improving Transparency of Nursing Home Operations," which required nursing home cost reports to include details about related parties. The state enacted PA 23-48 in 2022, which required nursing homes to submit profit and loss statements for related parties that receive more than $30,000 per year. Both are codified at CT Gen Stat § 17b-340, https://law.justia.com/codes/connecticut/title-17b/chapter-319y/section-17b-340-formerly-sec-17-314/.

iii. 305 Ill. Comp. Stat. 5/5B
https://www.ilga.gov/Documents/legislation/ilcs/documents/030500050K5B-5.htm

iv. In 2024 Massachusetts issued rules, 957 CMR 7.03, requiring nursing homes to file detailed annual cost reports, including separate filings from affiliated realty and management companies to capture expenses often obscured in related-party transactions.

v. 42 C.F.R. § 413.17,
https://www.ecfr.gov/current/title-42/chapter-IV/subchapter-B/part-413/subpart-A/section-413.17.

vi. 101 Code Mass. Regs. 206.08(f)(8).

vii. Cal. Welf. & Inst. Code § 14126.023(j),
https://codes.findlaw.com/ca/welfare-and-institutions-code/wic-sect-14126-023/ (establishing audit requirements); *Accounting & Reporting Manual for CA LTC Facilities* app. B (Glossary) (incorporated by 22 CCR § 97019) (defining "home office"). Note, there is no definition of "parent organization" but HCAI suggests that it is akin to an ultimate parent.
https://hcai.ca.gov/wp-content/uploads/2024/03/FSOR-SNF-Transparency.pdf It is unclear whether the home office and parent organization are synonymous.

viii. Cal. Code. Regs. Tit. 22, § 52500, https://www.law.cornell.edu/regulations/california/22-CCR-52500

ix. 957 Code Mass. Regs. § 7.06, https://www.law.cornell.edu/regulations/massachusetts/957-CMR-7-06

x. 957 Code Mass. Regs. § 7.07, https://www.law.cornell.edu/regulations/massachusetts/957-CMR-7-07