



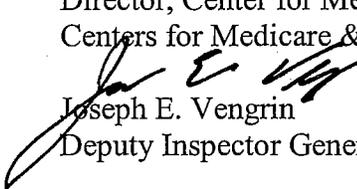
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 23 2006

TO: Herb Kuhn
Director, Center for Medicare Management
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Graduate Medical Education for Dental Residents Claimed by the Medical College of Virginia Hospital for Fiscal Years 2000 Through 2002 (A-04-03-06019)

Attached is an advance copy of our final report on Medicare graduate medical education (GME) payments for dental residents claimed by the Medical College of Virginia Hospital (the Hospital) in Richmond, VA. We will issue this report to the Hospital within 5 business days.

Based on congressional interest, we reviewed 10 hospitals to determine the effect of the Balanced Budget Act of 1997 on direct and indirect GME payments for dental residents included in hospitals' counts of full-time equivalent (FTE) residents. That legislation permitted hospitals to count FTE residents who train in nonhospital settings in their calculations of indirect, in addition to direct, GME payments. This review focused on the Hospital's arrangements with the Virginia Commonwealth University School of Dentistry (the Dental School), which is a nonhospital setting.

Our objective was to determine whether the Hospital included the appropriate number of dental residents in its FTE counts when computing Medicare GME payments for fiscal years (FYs) 2000 through 2002.

The Hospital appropriately included dental residents in its FTE counts used to compute FYs 2001 and 2002 GME payments. However, the Hospital inappropriately included 41.90 direct GME FTEs and 34.07 indirect GME FTEs in the counts for FY 2000 without incurring all of the costs of training dental residents in nonhospital sites that year. Federal regulations stipulate that hospitals must incur all or substantially all of the training costs to include dental residents who train in nonhospital sites in the FTE counts for Medicare GME payments. The Hospital did not have written procedures to prevent the inclusion of FTEs for which it had not paid the training costs. Because the FY 2000 FTEs were used in the 3-year rolling average, the Hospital overstated its direct and indirect GME claims by a total of \$1.6 million for FYs 2000 through 2002.

The number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside \$473,116 as the amount that the Hospital claimed corresponding to this didactic time for the

Centers for Medicare & Medicaid Services (CMS) to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

We recommend that the Hospital:

- file an amended cost report, which will result in a refund of \$1,644,284 associated with FTEs for which the Hospital did not incur all or substantially all of the training costs;
- establish and follow written procedures to ensure that the FTE counts for residents in nonhospital settings include only those FTEs for which the Hospital has incurred all or substantially all of the training costs;
- determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments; and
- work with CMS to resolve the \$473,116 related to FYs 2001 and 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

In written comments on the draft report, the Hospital generally disagreed with our findings and recommendations. The Hospital stated that it did not reimburse the Dental School for the FY 2000 costs associated with supervising dental residents because the Dental School agreed to donate the supervisory services to the Hospital. The Hospital acknowledged that it claimed the didactic time of residents assigned to nonhospital settings but believed that the time was allowable.

We disagree with the Hospital's assertion that the Dental School agreed to donate supervisory services to the Hospital in FY 2000. Thus, we maintain that our finding and recommendations regarding training costs not incurred by the Hospital are valid. We also continue to recommend that the Hospital work with CMS to resolve the didactic time issue.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Lori S. Pilcher, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750. Please refer to report number A-04-03-06019.

Attachment



REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

MAR 24 2006

Report Number: A-04-03-06019

Mr. John F. Duval
Chief Executive Officer
Medical College of Virginia Hospitals
Main Hospital Suite 2-300
1250 East Marshall Street
P.O. Box 980510
Richmond, Virginia 23298-0510

Dear Mr. Duval:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Graduate Medical Education for Dental Residents Claimed by the Medical College of Virginia Hospital for Fiscal Years 2000 Through 2002." A copy of this report will be forwarded to the HHS action official named on the next page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-04-03-06019 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori S. Pilcher", with a long horizontal stroke extending to the right.

Lori S. Pilcher
Regional Inspector General
for Audit Services

Enclosures

Page 2 – Mr. John F. Duval

Direct Reply to HHS Action Official:

Ms. Nancy B. O'Connor
Regional Administrator
Centers for Medicare & Medicaid Services, Region III
Department of Health and Human Services
150 South Independence Mall West, Suite 216
Philadelphia, Pennsylvania 19106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**GRADUATE MEDICAL EDUCATION
FOR DENTAL RESIDENTS CLAIMED
BY THE MEDICAL COLLEGE OF
VIRGINIA HOSPITAL FOR FISCAL
YEARS 2000 THROUGH 2002**



**Daniel R. Levinson
Inspector General**

**MARCH 2006
A-04-03-06019**

Office of Inspector General

<http://oig.hhs.gov>

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Medicare program makes two types of payments to teaching hospitals to support graduate medical education (GME) programs for physicians and other practitioners. Direct GME payments are Medicare's share of the direct costs of training residents, such as salaries and fringe benefits of residents and faculty and hospital overhead expenses. Indirect GME payments cover the additional operating costs that teaching hospitals incur in treating inpatients, such as the costs associated with using more intensive treatments, treating sicker patients, using a costlier staff mix, and ordering more tests. Payments for both direct and indirect GME are based, in part, on the number of full-time equivalent (FTE) residents trained by the hospital. The number of FTEs used for the current year's payments is the 3-year "rolling average" of the FTE count for the current year and the preceding 2 cost-reporting years.

Based on congressional interest, we undertook a review of 10 hospitals to determine the effect of the Balanced Budget Act of 1997 on direct and indirect GME payments for dental residents included in hospitals' counts of FTE residents. That legislation permitted hospitals to count FTE residents who train in nonhospital settings in their calculations of indirect, in addition to direct, GME payments.

This report focuses on the Medical College of Virginia Hospital (the Hospital) and its arrangements with the Virginia Commonwealth University School of Dentistry (the Dental School). The Dental School is a nonhospital setting. In July 1999, the Hospital entered into an agreement with the Dental School to allow the Hospital to claim GME payments for dental residents in return for reimbursing the Dental School for residents' salaries. For all FTEs, including dental FTEs, the Hospital claimed more than \$70 million in direct (\$24.5 million) and indirect (\$46 million) GME payments for the 3-year period that ended June 30, 2002. FTEs used to calculate reimbursable GME costs averaged 399 per year.

OBJECTIVE

Our objective was to determine whether the Hospital included the appropriate number of dental residents in its FTE counts when computing Medicare GME payments for fiscal years (FYs) 2000 through 2002.

SUMMARY OF FINDINGS

The Hospital appropriately included dental residents in its FTE counts used to compute FYs 2001 and 2002 GME payments. However, the Hospital inappropriately included 41.90 direct GME FTEs and 34.07 indirect GME FTEs in the counts for FY 2000 without incurring all of the costs of training dental residents in nonhospital sites that year. Federal regulations stipulate that hospitals must incur all or substantially all of the training costs to include dental residents who train in nonhospital sites in the FTE counts for Medicare GME payments. The Hospital did not have written procedures to prevent the inclusion of

FTEs for which it had not paid the training costs. Because the FY 2000 FTEs were used in the 3-year rolling average, the Hospital overstated its direct and indirect GME claims by a total of \$1.6 million for FYs 2000 through 2002.

The number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside \$473,116 as the amount that the Hospital claimed corresponding to this didactic time for the Centers for Medicare & Medicaid Services (CMS) to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

RECOMMENDATIONS

We recommend that the Hospital:

- file an amended cost report, which will result in a refund of \$1,644,284 associated with FTEs for which the Hospital did not incur all or substantially all of the training costs;
- establish and follow written procedures to ensure that the FTE counts for residents in nonhospital settings include only those FTEs for which the Hospital has incurred all or substantially all of the training costs;
- determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments; and
- work with CMS to resolve the \$473,116 related to FYs 2001 and 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

HOSPITAL'S COMMENTS

In written comments on the draft report, the Hospital generally disagreed with our findings and recommendations. The Hospital stated that it did not reimburse the Dental School for the FY 2000 costs associated with supervising dental residents because the Dental School agreed to donate the supervisory services to the Hospital. The Hospital acknowledged that it claimed the didactic time of residents assigned to nonhospital settings but believed that the time was allowable.

The complete text of the Hospital's comments is included as Appendix B.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We disagree with the Hospital's assertion that the Dental School agreed to donate supervisory services to the Hospital in FY 2000. Thus, we maintain that our finding and recommendations regarding training costs not incurred by the Hospital are valid. We also continue to recommend that the Hospital work with CMS to resolve the didactic time issue.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Medicare Payments for Graduate Medical Education	1
Balanced Budget Act of 1997	1
Virginia Commonwealth University Health System.....	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope	2
Methodology	2
FINDINGS AND RECOMMENDATIONS	3
TRAINING COSTS INCURRED BY THE HOSPITAL	3
NON-PATIENT-CARE ACTIVITIES	4
RECOMMENDATIONS	4
HOSPITAL’S COMMENTS	4
OFFICE OF INSPECTOR GENERAL’S RESPONSE	5
APPENDIXES	
A – CALCULATING GRADUATE MEDICAL EDUCATION PAYMENTS	
B – HOSPITAL’S COMMENTS	

INTRODUCTION

BACKGROUND

Medicare Payments for Graduate Medical Education

Since its inception in 1965, the Medicare program has shared in the costs of educational activities incurred by participating providers. Medicare makes two types of payments to teaching hospitals to support graduate medical education (GME) programs for physicians and other practitioners. Direct GME payments are Medicare's share of the direct costs of training residents, such as salaries and fringe benefits of residents and faculty and hospital overhead expenses. Indirect GME payments cover the additional operating costs that teaching hospitals incur in treating inpatients, such as the costs associated with using more intensive treatments, treating sicker patients, using a costlier staff mix, and ordering more tests. Payments for both direct and indirect GME are based, in part, on the number of full-time equivalent (FTE) residents trained by the hospital. The number of FTEs used for the current year's payments is the 3-year "rolling average" of the FTE count for the current year and the preceding 2 cost-reporting years.

Balanced Budget Act of 1997

The Balanced Budget Act of 1997 placed some controls on the continuing growth of GME reimbursement by imposing caps on the number of residents that hospitals are allowed to count for the purpose of direct and indirect GME payments. Dental FTEs are not included in the caps. The legislation also created incentives for hospitals to train residents in freestanding nonhospital settings, such as clinics and ambulatory surgical centers, by permitting hospitals to count FTE residents who train in nonhospital settings in their calculations of indirect, in addition to direct, GME payments.

Based on congressional interest, we undertook a review of 10 hospitals to determine the effect of the Balanced Budget Act on direct and indirect GME payments for dental residents included in hospitals' counts of FTE residents.

Virginia Commonwealth University Health System

The Virginia Commonwealth University Health System in Richmond is the only academic medical center in central Virginia. Its teaching components include both the Medical College of Virginia Hospital (the Hospital), which has 822 beds, and the Virginia Commonwealth University School of Dentistry (the Dental School), which provides services to the general public through various dental clinics. The Dental School is a nonhospital setting. In July 1999, the Hospital entered into an agreement with the Dental School to allow the Hospital to claim GME payments for dental residents in return for reimbursing the Dental School for residents' salaries.

For all FTEs, including dental FTEs, the Hospital claimed about \$70.5 million in direct (\$24.5 million) and indirect (\$46 million) GME payments for the 3-year period that ended June 30, 2002. FTEs used to calculate reimbursable GME costs averaged 399 per year.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Hospital included the appropriate number of dental residents in its FTE counts when computing Medicare GME payments for fiscal years (FYs) 2000 through 2002.

Scope

Our review of the Hospital's internal control structure was limited to understanding those controls used to determine the number of residents counted for direct and indirect GME payments. We neither assessed the completeness of the Hospital's data files nor evaluated the adequacy of the input controls, except for limited testing of data from computer-based systems. The objective of our review did not require a complete understanding or assessment of the Hospital's internal control structure. We restricted our review to dental residents.

We performed the audit at both the Hospital and the Dental School in Richmond, VA. We obtained information documenting the dental FTEs reported on the Hospital's Medicare cost reports from the Hospital, the Dental School, and the fiscal intermediary.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal criteria, including section 1886 of the Social Security Act (the Act) and 42 CFR parts 412 and 413;
- gained an understanding of the Hospital's procedures for identifying, counting, and reporting dental resident FTEs on the Medicare cost reports;
- reconciled the dental resident FTEs reported on the Hospital's FYs 2000 through 2002 Medicare cost reports to supporting documentation;
- reviewed supporting documentation to determine whether the Hospital appropriately included dental residents in the FTE resident counts when computing direct and indirect GME payments on the Medicare cost reports;
- reviewed financial records at the Hospital and the Dental School to determine whether the Hospital incurred all of the costs of training dental residents in nonhospital settings; and
- summarized the audit results and provided them to the fiscal intermediary to recompute GME payments on the FYs 2000 through 2002 cost reports.

We conducted this audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The Hospital appropriately included dental residents in its FTE counts used to compute FYs 2001 and 2002 GME payments. However, the Hospital inappropriately included dental residents who trained in nonhospital sites in the FTE counts for FY 2000 without incurring all of the residents' training costs that year. Federal regulations stipulate that hospitals must incur all or substantially all of the training costs to include dental residents in the FTE counts for Medicare GME payments. The Hospital did not have written procedures to prevent the inclusion of FTEs for which it had not paid the training costs. Because the FY 2000 FTEs were used in the 3-year rolling average, the Hospital overstated its direct and indirect GME claims by a total of \$1.6 million for FYs 2000 through 2002.

The number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside \$473,116 as the amount that the Hospital claimed corresponding to this didactic time for the Centers for Medicare & Medicaid Services (CMS) to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

TRAINING COSTS INCURRED BY THE HOSPITAL

In computing FY 2000 GME payments, the Hospital did not comply with Federal regulations requiring that hospitals incur all or substantially all of the training costs for dental residents.

Sections 1886(h)(4)(E) and (d)(5)(B)(iv) of the Act state that in determining the FTEs for residents assigned to nonhospital settings, hospitals must incur all or substantially all of the costs for the training program. Federal regulations (42 CFR § 413.75(b)) define all or substantially all of the costs as "the residents' salaries and fringe benefits . . . and the portion of the cost of teaching physicians' salaries and fringe benefits attributable to direct graduate medical education."¹

The Hospital inappropriately included 41.90 dental residents who trained in nonhospital sites in the direct GME FTE count and 34.07 dental residents in the indirect GME FTE count for FY 2000. The Hospital should not have included these FTEs because it did not incur all of the training costs, as defined by regulations, for the dental residents. To include the dental FTEs, the Hospital should have paid all of the residents' salaries and fringe benefits in addition to the supervisory teaching physicians' costs attributable to GME. Instead, the Hospital paid only the residents' salaries and fringe benefits. The Dental School, rather than the Hospital, paid the supervisory teaching physicians' costs.

The Hospital did not have written procedures to ensure that it included in the calculation of GME payments only FTEs for which it paid the training costs. For example, for FY 2000,

¹During our audit period, these requirements were found in 42 CFR § 413.86.

the Hospital accepted the FTE count provided by the Dental School without verifying that the FTEs were allowable. Although the Hospital appropriately claimed the FTEs in FYs 2001 and 2002, consistent compliance in future years cannot be assured without written procedures in place.

The Hospital's use of the FY 2000 overstated FTE count in the 3-year rolling average also inflated the FTE counts for FYs 2001 and 2002. As a result, Medicare overpaid the Hospital \$1.6 million in GME payments for FYs 2000 through 2002. The overpayments were \$264,351, \$634,794, and \$745,139 for FYs 2000, 2001, and 2002, respectively. (See Appendix A for details.)

NON-PATIENT-CARE ACTIVITIES

The number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside \$473,116 as the amount that the Hospital claimed corresponding to this didactic time for CMS to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

RECOMMENDATIONS

We recommend that the Hospital:

- file an amended cost report, which will result in a refund of \$1,644,284 associated with FTEs for which the Hospital did not incur all or substantially all of the training costs;
- establish and follow written procedures to ensure that the FTE counts for residents in nonhospital settings include only those FTEs for which the Hospital has incurred all or substantially all of the training costs;
- determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments; and
- work with CMS to resolve the \$473,116 related to FYs 2001 and 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

HOSPITAL'S COMMENTS

In written comments on the draft report, the Hospital generally disagreed with our findings and recommendations. The Hospital stated that it did not reimburse the Dental School for the FY 2000 costs associated with supervising dental residents because the Dental School agreed to donate the supervisory services to the Hospital. According to the Hospital, in discussions between the Hospital and the Dental School, both parties recognized that the Hospital would not be reimbursed for the full costs of the dental residency program for

FY 2000 because of the 1-year lag in Medicare reimbursement for indirect GME. The Hospital stated:

As a consequence, the Dental School agreed not to invoice the Hospital, and the Hospital agreed not to pay, for the costs of resident supervision during the 2000 cost year. When promulgating its GME regulations, . . . CMS . . . expressly recognized that in some instances a non-hospital entity may decide to donate its supervisory services. In such cases, the parties “may specify that there is no payment to the clinic for supervisory activities . . .” 63 Fed. Reg. 40954, 40996 (July 31, 1998). That is precisely the case here with respect to 2000.

The Hospital acknowledged that it claimed the didactic time of residents assigned to nonhospital settings but believed that the time was allowable.

The complete text of the Hospital’s comments is included as Appendix B.

OFFICE OF INSPECTOR GENERAL’S RESPONSE

We maintain that our findings and recommendations regarding training costs incurred by the Hospital are valid. Specifically, we disagree with the Hospital’s contention that its financial arrangement with the Dental School for FY 2000 was the same as the arrangement CMS described in 63 Federal Register 40954, 40996 (July 31, 1998). That citation states that the agreement “may specify that there is no payment to the clinic for supervisory activities because the clinic does not have these costs.” (Emphasis added.) In FY 2000, the Dental School did incur the costs for supervisory activities. Moreover, the Memorandum of Understanding between the Hospital and the Dental School acknowledges that the Hospital will pay the costs of residents’ salaries, fringe benefits, and supervision. However, for FY 2000, the Hospital paid only the residents’ salaries and fringe benefits. The Memorandum of Understanding specifically requires the Hospital either to incur the supervisory physician costs itself or to provide compensation to the Dental School for these costs. For FY 2000, the Dental School incurred the supervisory costs, and the Hospital did not compensate the Dental School for them.

We also continue to recommend that the Hospital work with CMS to resolve the didactic time issue.

APPENDIXES

CALCULATING GRADUATE MEDICAL EDUCATION PAYMENTS

DIRECT GRADUATE MEDICAL EDUCATION

Hospitals are paid for direct graduate medical education (GME) based on Medicare's share of a hospital-specific per resident amount multiplied by the number of full-time equivalent (FTE) residents and the percentage of Medicare inpatient days to total inpatient days. The payment methodology contained in 42 CFR § 413.76 is:¹

$$\text{Medicare payment} = (\text{hospital's established per resident amount}) \times (\text{number of FTE residents}) \times (\text{number of Medicare inpatient days/number of total inpatient days})$$

The number of FTE residents used in the calculation is equal to the average of the FTE count for the current year and the preceding 2 cost-reporting years, or the 3-year rolling average. Table 1 illustrates the effect of the overstated fiscal year (FY) 2000 FTE count on the rolling average FTE count in FYs 2000 through 2002 at the Medical College of Virginia Hospital (the Hospital). Because of the rolling average, the effect of the Office of Inspector General's (OIG's) adjustment to the FY 2000 FTE count is not fully recognized until FY 2002.

Table 1: Effect of Overstated FTE Count on Rolling Average

	FTE Count					3-Year Rolling Average
	1998	1999	2000	2001	2002	
<u>2000 Cost Report</u>						
Per Hospital	406.81	359.88	415.07			393.92
Per OIG	406.81	359.88	373.17			379.95
<u>2001 Cost Report</u>						
Per Hospital		359.88	415.07	405.04		393.33
Per OIG		359.88	373.17	405.04		379.36
<u>2002 Cost Report</u>						
Per Hospital			415.07	405.04	419.08	413.06
Per OIG			373.17	405.04	419.08	399.10

¹During our audit period, these requirements were found in 42 CFR § 413.86.

INDIRECT GRADUATE MEDICAL EDUCATION

Medicare pays for indirect GME based on a formula that calculates an add-on to the Hospital's basic prospective payment. The add-on is determined by a multiplier (established by legislation) and the resident-to-bed ratio. The payment methodology contained in 42 CFR § 412.105 is:

$$\text{Medicare payment} = \text{multiplier} \times [(1 + \text{number of FTE residents/number of available beds})^{0.405} - 1]$$

The number of FTE residents used in the calculation is the 3-year rolling average. The resident-to-bed ratio is the lesser of the current or prior-year ratio. As illustrated in Table 2, the effect of OIG's reduction of the FY 2000 dental FTE count is not recognized until the year after the adjustment.

Table 2: Effect of Overstated FTE Count on Resident-to-Bed Ratio

	Resident-to-Bed Ratio		
	Current Year	Prior Year	Lesser of Current or Prior Year
<u>2000 Cost Report</u>	<u>2000</u>	<u>1999</u>	
Per Hospital	0.637420	0.603023	0.603023
Per OIG	0.618677	0.603023	0.603023
<u>2001 Cost Report</u>	<u>2001</u>	<u>2000</u>	
Per Hospital	0.660145	0.637420	0.637420
Per OIG	0.641244	0.618677	0.618677
<u>2002 Cost Report</u>	<u>2002</u>	<u>2001</u>	
Per Hospital	0.703864	0.660145	0.660145
Per OIG	0.684976	0.641244	0.641244

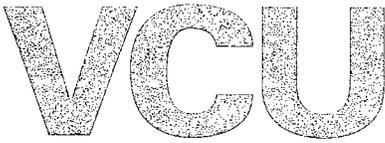
The FY 2000 overstated FTEs did not affect the FY 2000 indirect GME payments. The Hospital appropriately used the FY 1999 ratio of 0.603023 because it was lower than the FY 2000 ratio. Therefore, the Hospital did not overstate indirect GME payments for FY 2000.

SUMMARY OF AUDIT RESULTS

Table 3 summarizes the Hospital’s overstated FTEs and the resultant overstated claims for direct and indirect GME reimbursement.

Table 3: Summary of Audit Results

Fiscal Year	Overstated FTEs		Overstated Claim for Reimbursement		
	Direct	Indirect	Direct	Indirect	Total
2000	41.90	34.07	\$264,351	\$0	\$264,351
2001			288,274	346,520	634,794
2002			334,937	410,202	745,139
Total	41.990	34.07	\$887,562	\$756,722	\$1,644,284



Medical Center

In the tradition of the Medical College of Virginia

VIA OVERNIGHT COURIER

February 10, 2006

Ms. Lori S. Pilcher
Regional Inspector General for Audit Services, Region IV
Department of Health and Human Services
Office of Inspector General, Office of Audit Services
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Re: *OIG Draft Report "Graduate Medical Education for Dental Residents Claimed by the Medical College of Virginia Hospitals for Fiscal Years 2000 Through 2002"*

Dear Ms. Pilcher:

I write in response to the draft report, "Graduate Medical Education for Dental Residents Claimed by the Medical College of Virginia Hospitals for Fiscal Years 2000 Through 2002." We appreciate the opportunity to review the draft report and comment on several of its recommendations.

The report recommends that the Medical College of Virginia Hospitals (the "Hospital") refund approximately \$1.6 million in graduate medical education ("GME") costs "associated with FTEs for which the Hospital did not incur all or substantially all of the training costs." VCU Health System, the Hospital's parent organization, recognizes that the full time equivalent ("FTE") count for residents in non-hospital settings includes only those residents for which the Hospital has incurred all or substantially all of the training costs. As the report notes, in 2001 and 2002, the Hospital properly incurred all of the training costs for its residents training at the Virginia Commonwealth University School of Dentistry (the "Dental School"), including all supervisory costs. In 2000, however, the Hospital did not reimburse the Dental School for costs associated with supervising the Hospital's residents, because the Dental School agreed to provide these services to the Hospital for free during the first year of its residency agreement. Specifically, in discussions between the Hospital and Dental School, it was recognized by both that the Hospital would not be able to be reimbursed for its full costs of the dental residency program for 2000 because of the one-year lag in indirect medical education ("IME") reimbursement from Medicare. As a consequence, the Dental School agreed not to invoice the Hospital, and the Hospital agreed not to pay, for the costs of resident supervision during the 2000 cost year. When promulgating its GME regulations, the Health Care Financing Administration (now the Centers for Medicare & Medicaid Services, or "CMS") expressly recognized that in some instances a non-hospital entity may decide to donate its supervisory services. In such cases, the parties "may specify that there is no payment to the clinic for supervisory activities. . ." 63 Fed. Reg. 40954, 40996 (July 31, 1998). That is precisely the case here with respect to 2000.

VCU Health System Administration

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John F. Duval
Chief Executive Officer
MCV Hospitals

The report also recommends that the Hospital work with CMS to resolve the issue of whether approximately \$475,000 in costs associated with the time residents spent in a classroom setting should have been included in the Hospital's GME calculations. We believe that the Hospital properly accounted for these costs. CMS requires that hospitals calculate GME based on the time spent on "patient care activities." The term "patient care activities, however, includes time spent by residents in research and other scholarly activities. See *University Medical Center v. BlueCross BlueShield Association/Blue Cross & Blue Shield of Arizona*, PRRB Case Nos. 02-0216 and 02-0217 (Apr. 2005).

VCU Health System and the Medical College of Virginia Hospitals remain committed to ensuring full compliance with all federal health care program requirements. Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "John F. Duval", with several loops and flourishes extending to the left and right.

John F. Duval
Chief Executive Officer
MCV Hospitals
VCU Health System

c: Timothy Crye, OIG/OAS