Department of Veterans Affairs
Office of Inspector General

Audit of VA Disbursement Agreements for Senior Residents

Controls over disbursement agreement management need to be strengthened to ensure VA receives its proportionate share of senior resident positions.

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VA Office of Inspector General
Washington, DC 20420

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Contents

Executive Summary

Introduction

The Office of Inspector General (OIG) performed an audit to assess the effectiveness of Veterans Health Administration (VHA) oversight of resident disbursement agreements and to evaluate how effectively VA medical centers (VAMCs) and health care systems (all referred to as VAMCs) managed disbursement agreements for senior residents. A disbursement agreement is an alternative payroll mechanism by which VHA allows an affiliated medical school or hospital (all referred to as medical schools) to directly administer salaries and fringe benefits for residents in training at VA. In fiscal year (FY) 2005, 113 VAMCs had disbursement agreements supporting about 8,000 full-time equivalent employee (FTE) residents.

To determine if disbursement agreements were effectively managed, we performed onsite reviews of 70 residency training programs at 4 VAMCs located in 4 Veterans Integrated Service Networks (VISNs). We also conducted telephone surveys of all 113 VAMCs with disbursement agreements, including an in-depth survey of 15 VAMCs. Our review focused on senior level residents, specifically post-graduate years (PGYs) 3 and higher residents. We did not include lower level residents (PGYs 1 and 2) in the review because our initial internal control assessments found that controls for these residents were generally adequate. In addition, the OIG's 1994 audit of disbursement agreements found that most of the erroneous payments occurred in the medical and surgical subspecialty programs that had PGYs 3 and higher residents assigned.

Audit Results

The VHA's Office of Academic Affiliations (OAA) had properly approved payment rates, and resident salaries and benefits were generally accurate and well supported by medical school financial and personnel records. However, the audit identified two issues: (1) VAMCs did not comply with operational and oversight requirements and (2) OAA did not provide sufficient policy guidance to VAMCs. As a result, there was no assurance that VA received its proportionate share of senior resident FTE or that VAMC disbursement agreement programs were effectively managed. For academic year (AY) 2004–2005, we estimate that the 4 VAMCs overpaid the medical schools $635,340 due to inadequate timekeeping procedures in 19 (27 percent) of the 70 reviewed programs.[1] For these 19 programs, the unaccounted for resident FTE ranged from about 12 to 87 percent. In addition, we estimate that the four VAMCs underpaid the medical schools $44,324 because of inadequate fiscal procedures.

[1] Because resident rotation schedules, medical school billings, and other program documentation are based on the academic year (July–June), our results and conclusions are reported for AY 2004–2005 instead of by fiscal year.

Operational and Oversight Requirements

To ensure proper management of disbursement agreement programs and meet the operational and oversight requirements outlined in VHA policy, VAMCs are required to implement adequate timekeeping, fiscal, and oversight procedures. None of the four VAMCs we visited complied with these requirements.

Timekeeping Procedures. Although all four of the VAMCs implemented some procedures to monitor resident attendance, the procedures were not adequate to ensure that residents were present at the VAMCs for the time that the medical schools were reimbursed. As a result, the VAMCs reimbursed the medical schools for residents who worked at other hospitals during VA-paid time and used inaccurate documentation to verify resident attendance. In addition, leave accounting practices varied so widely at the VAMCs that we could not determine if the VAMCs paid their proportionate shares of leave.

Fiscal Procedures. The VAMCs had not implemented adequate fiscal procedures to ensure that medical school bills were thoroughly reviewed and properly certified. Our review of bills certified for payment identified numerous errors, including mathematical errors, double billings, unallowable costs, Social Security costs for exempt residents, incorrect PGY levels, and the use of unapproved pay rates, that resulted in both overpayments and underpayments to the medical schools.

Oversight Procedures. None of the VAMCs had implemented procedures to perform required periodic reviews to assess overall program effectiveness and efficiency or the adequacy of timekeeping and fiscal procedures to prevent fraud and mismanagement.

Veterans Health Administration Policy Guidance

VHA's OAA did not provide sufficient guidance and instructions to VAMCs on how to effectively manage disbursement agreements. Significant portions of VHA policies pertaining to disbursement agreements are vague and omit important issues. In addition, the policies do not require that VAMC employees who are involved in managing disbursement agreements receive training.

Conclusion

To strengthen management of disbursement agreement programs for senior residents, VAMC program managers need to comply with applicable policies and OAA needs to improve policy guidance to VAMC program managers. OAA officials acknowledged that current policies do not adequately address the complexities of managing disbursement agreements, especially when senior residents have split responsibilities between VA and affiliated medical schools, and they agreed that there is no system in place to periodically communicate to VAMCs policy requirements or to oversee disbursement agreement program management at VAMCs.

The Acting Under Secretary for Health needs to ensure that OAA requires all VAMCs with disbursement agreements to comply with operational and oversight requirements outlined in VHA policies. We recommend that all VAMCs conduct self-assessments of their time and attendance and payment practices to ensure appropriate rates and PGY levels are paid, Social Security exemptions are applied, unallowable costs are not factored into payments, and duplicate billings do not occur. Further, OAA should update and revise all policies and procedures pertaining to disbursement agreements and specifically address, at a minimum, the issues discussed in this report. In addition, OAA should develop a program to provide mandatory initial and periodic training to VAMC employees who are responsible for administering and overseeing disbursement agreements with affiliated medical schools.

Acting Under Secretary for Health Comments

The Acting Under Secretary for Health agreed with the findings, recommendations, and monetary benefit and provided implementation plans that met the full intent of the recommendations. Specifically, he reported that he had requested the Chief Academic Affiliations Officer to convene a special field advisory group to study the issues identified in the report, create systems for fiscal and managerial oversight, and generate recommendations for national policy changes. (See Appendix C, pages 16–19 for the full text of the Acting Under Secretary for Health's comments.) We will follow up on the implementation of planned improvement actions until they are completed.

(original signed by:)

KENNETH R. SARDEGNA
Acting Assistant Inspector General
For Auditing

Introduction

Purpose

The purpose of the audit was to assess the effectiveness of VHA oversight of resident disbursement agreements and to evaluate how effectively VAMCs managed disbursement agreements for senior residents. The audit objectives were to determine if: (1) reimbursement rates were based on actual medical school costs for resident salaries and fringe benefits, (2) reimbursement payments were accurate and supported by resident assignment and attendance records, and (3) VAMCs received their proportionate share of resident FTE.

Background

Since 1946, VA has actively partnered with university schools of medicine to train physicians. In FY 2005, 130 VAMCs had affiliation agreements with 107 of the Nation's medical schools and VA supported about 8,800 medical resident positions in about 2,000 residency training programs. Every year, approximately 28,000 medical residents receive some portion of their training at VAMCs. As part of their training, residents typically have a series of rotational assignments at the various hospitals that are affiliated with the medical school.

Title 38 of the United States Code, Section 7406, authorizes VA to establish and administer disbursement agreements with affiliated medical schools. A disbursement agreement is an alternative payroll mechanism by which VA allows an affiliated medical school to directly administer salary and fringe benefits payments for residents training at VAMCs. VA uses disbursement agreements to achieve equity with the resident salaries and fringe benefits provided by affiliated medical schools and to streamline resident pay administration. During AY 2004–2005, 113 VAMCs had disbursement agreements supporting about 8,000 resident FTE with associated salary and fringe benefits costs of about $372.6 million.

OAA is responsible for developing and implementing policies pertaining to the use and approval of disbursement agreements. VHA guidance for managing disbursement agreements is contained in VHA Manual M-8, Part II, Chapter 5, "House Staff Disbursement Agreements" and VHA Directive 98-031, "Academic Affiliations Disbursement Agreements." OAA must approve all disbursement agreements before they are implemented and must also annually approve the daily pay rates that VAMCs use to reimburse the medical schools. Under disbursement agreements, separate daily rates are developed based on the medical schools' actual salary and fringe benefits costs for each resident PGY level. At least quarterly, the medical schools are required to provide the VAMCs with bills showing the number of days each resident spent at the

VAMCs multiplied by the appropriate daily rates to arrive at the total charges. The VAMCs are required to verify the bills before certifying them for payment.

At VAMCs, management of disbursement agreements is the responsibility of the Director, who typically assigns the Associate Chief of Staff for Education (ACOS/E) or Education Coordinator specific administrative duties. Timekeeping responsibilities are further delegated to VAMC employees in the various clinical services.

During FYs 1993–1994, the OIG conducted its first national audit of disbursement agreements (*VA Disbursement Agreements with Affiliated Medical Schools*, Report No. 4R8-A19-116, September 12, 1994). The audit found that VAMCs had not received all of the resident services paid for, especially in the smaller, specialty residency training programs. Specifically, we found that VAMCs paid for full-time residents who worked at other affiliated hospitals, for the full cost of residents who worked only part-time, and for residents who had not performed VA duties. We recommended that OAA issue additional policy guidance aimed at helping VAMC managers to ensure that payments are correct for programs in which residents do not work full time at VA. In response to the recommendation, OAA issued VHA Directive 98-031 on July 6, 1998, to clarify and supplement the requirements set forth in VHA Manual M-8. However, as this audit report shows, significant portions of the new policy are vague and omit important issues, and VAMCs did not fully comply with OAA policies.

Scope and Methodology

To accomplish the audit objectives, we visited 4 VAMCs (Charleston, SC; San Francisco, CA; Iowa City, IA; and Baltimore, MD); interviewed timekeepers, attending physicians, ACOS/E, and other program officials; conducted telephone surveys of all 113 VAMCs with disbursement agreements (including the 4 VAMCs we visited); and interviewed OAA oversight officials. For AY 2004–2005, the 4 VAMCs had combined allocations of 418.2 FTE resident positions, including 249.2 FTE senior residents, in 110 residency training programs with expenditures of $19.8 million.

At each VAMC, we performed detailed time and workload analyses for a sample (non-randomized) of residents in 17–18 different residency training programs. Overall, our analyses at the 4 VAMCs included 383 residents in 70 training programs. We limited the scope to focus on senior residents (PGYs 3 and higher) because these residents typically had split responsibilities between VAMCs and affiliated institutions; whereas, the junior residents (PGYs 1 and 2) were generally assigned and present at VAMCs full-time. In addition, the OIG's 1994 audit of disbursement agreements found that most of the erroneous payments occurred in the medical and surgical subspecialty programs that had PGYs 3 and higher residents assigned.

At each VAMC, we reviewed the most recent 3-month period (or 1 quarter) during AY 2004–2005 for which there was complete billing information. We found that the amounts

paid to the medical schools during these quarters were sufficiently representative of the amounts paid during the other 3 quarters of the academic year. We calculated the monetary benefit based on the percentage of resident FTE we could account for at the four VAMCs.

In this report we discuss our findings in the context of whether VAMCs received their "proportionate share" of resident FTE. We used this language to reflect the partnership between VA and affiliated medical schools. Under the terms of a disbursement agreement, VA agrees to support a certain number of residents in their medical training, which is consistent with VA's education mission. As partners in training residents, neither VA nor the affiliated medical schools should profit monetarily from the agreement and each partner should receive its proportionate share of resident FTE.

We obtained and analyzed computer-processed data including surgical operating room logs, outpatient appointment schedules, inpatient census reports, and progress notes from the four VAMCs for the period October 2004–June 2005. To test the reliability of this data, we interviewed residents, service chiefs, attending physicians, administrative officers, and timekeepers; reviewed rotation and assignment schedules, timesheets, summary time reports, leave requests, and conference attendance logs; and observed resident activities at selected clinics. We found the data to be sufficiently reliable to meet the audit objectives. This audit was performed during the period March 2005–January 2006 in accordance with Generally Accepted Government Auditing Standards.

Results and Conclusions

OAA had properly approved payment rates, and resident salaries and benefits were generally accurate and well supported by medical school financial and personnel records. However, the audit identified two issues: (1) VAMCs did not comply with operational and oversight requirements and (2) OAA did not provide sufficient policy guidance to VAMCs. As a result, there was no assurance that VA received its proportionate share of senior resident FTE or that VAMC disbursement agreement programs were effectively managed.

Operational and Oversight Requirements

VAMCs did not comply with operational and oversight requirements. VHA Manual M-8 outlines operational and oversight requirements that VAMCs should follow to effectively manage disbursement agreements. The operational requirements listed in the policy ensure that the VAMCs implement adequate timekeeping and fiscal procedures such as confirming the presence of all residents using VA timekeeping systems, verifying pay rates, reviewing and verifying the accuracy of bills, and certifying bills for payment. VHA Directive 98-031 further clarifies and expands the operational requirements for timekeeping and fiscal controls. In addition, the oversight requirements listed in VHA Manual M-8 ensure that procedures are in place to periodically review disbursement agreement program management. We identified numerous weaknesses with the timekeeping, fiscal, and oversight procedures at all four VAMCs.

Timekeeping Procedures Were Not Adequate

None of the four VAMCs had implemented adequate procedures to ensure that they only paid for their proportionate share of actual resident FTE. For AY 2004–2005, we estimate that the four VAMCs overpaid the medical schools $635,340 ($158,835 overpayments for the quarter reviewed x 4 quarters) due to inadequate timekeeping procedures in 19 (27 percent) of the 70 reviewed programs. For these 19 programs, the unaccounted for resident FTE ranged from about 12 to 87 percent. The overpayments resulted from two types of reimbursement errors, as discussed below. We also found wide disparities in how VAMCs tracked and recorded resident leave.

Residents Worked at Other Hospitals During VA-Paid Time. VHA Directive 98-031 requires VAMCs to pay only for the time that residents are physically present and performing VA patient care or other authorized duties. However, the VAMCs routinely paid for residents who worked at other hospitals while being paid under the disbursement agreements. This occurred for two reasons: (1) VAMC timekeepers were unaware that residents were not at the VAMCs as scheduled and (2) some VAMC timekeeping policies allowed residents to perform non-VA duties while being paid under disbursement agreements.

In 12 (17 percent) of the 70 residency programs reviewed, VAMCs paid for residents who worked at other hospitals during VA-paid time because VAMC timekeepers were not aware of resident attendance or that residents were absent. The following example illustrates this problem:

> For January–March 2005, VAMC Iowa City paid the medical school for two thoracic surgery residents who regularly worked at the affiliated hospital on Mondays, Tuesdays, and Fridays. One thoracic surgery resident was assigned to the VAMC from January 10 to February 28, and the second was assigned for the entire month of March. The VAMC reimbursed the medical school $15,387 for 59 days of resident services. However, the timekeeper was unaware that the residents worked at the affiliated hospital for 29 of the 59 days. The VAMC overpaid the medical school $7,568 for 29 days.

VHA Manual M-8 and VHA Directive 98-031 do not specify the minimum number of hours a resident must be present at the VAMC in order to be credited for a full duty day. It is the responsibility of each VAMC to define the minimum resident work day.

We found that some VAMCs had established local policies to give residents a full-day's credit for partial days (less than 8 hours) worked under the disbursement agreements, while some VAMCs had no policies at all. For example, VAMC Charleston's local policy allowed residents to be paid for a full day if they worked at the VAMC at least 4 hours and 1 minute. Once residents met this time commitment, they could work at other affiliated hospitals, but the VAMC still paid the medical school the full daily rate.

The responses to our telephone survey of the 113 VAMCs with disbursement agreements indicated that a significant number of VAMCs had similar policies. In our survey, we asked for the minimum number of hours a resident needed to be at the VAMC in order to be credited a full duty day under the disbursement agreement. Thirty (26 percent) VAMCs credited residents with a full day if they worked less than 8 hours (2–6 hours). Ten (9 percent) of the VAMCs had no minimum work requirement. One (1 percent) VAMC reported that it did not track resident time and attendance at all. The remaining 72 (64 percent) VAMCs required that residents be present at the VAMC at least 8 hours to receive a full day's credit.

Inaccurate Documentation Was Used to Verify Attendance. VAMC timekeepers relied on inaccurate rotation and assignment schedules to prepare attendance records and to verify the number of resident days billed by the medical schools. VHA Directive 98-031 requires that VAMCs maintain records that accurately document resident rotation and assignment schedules, as well as maintain accurate time and attendance records. Rotation schedules show which hospitals and programs residents are assigned to work at during a specified period (such as a month). Assignment schedules typically show

information about daily schedules, such as working in clinics, on inpatient wards, or in operating rooms.

For 46 (66 percent) of the 70 programs reviewed, timekeepers relied on inaccurate rotation or assignment schedules. Consequently, the time shown on resident attendance records did not reflect the actual time that residents were at the VAMCs. Medical school employees and VAMC employees did not update rotation and assignment schedules to reflect schedule changes, which occurred frequently in some programs. Also, rotation schedules did not show when residents were assigned to VAMCs part time, and some did not show scheduled leave. The following example illustrates the effects of relying on inaccurate documentation:

> At VAMC Charleston, the dermatology assignment schedule for November 2004 showed a resident scheduled to work in clinics on Mondays, Wednesdays, and Fridays for a total of 13 days. The resident actually worked on Mondays and Fridays and only worked at the VAMC 7 days during the month. Because the timekeeper relied on the assignment schedule to determine the resident's attendance, the VAMC overpaid the medical school $782 for the month.

VAMC Leave Accounting Practices Varied Widely. Resident leave policies are contained in the disbursement agreements, which VAMCs develop using mandatory template language contained in the appendixes of VHA Manual M-8. The agreements establish the rates at which residents earn leave during a month of VA duty and specify whether leave will be charged on a 5- or 7-day week basis. At the end of each AY, the VAMC and medical school should settle financial responsibility for the remaining leave balances. To accomplish these settlements, VAMCs must maintain accurate records of resident leave that is earned and used during the AY. Leave accounting practices at the four VAMCs varied widely.

Timekeepers at VAMCs Charleston and San Francisco recorded leave when the rotation schedules showed a resident's leave or when they were told by VA or medical school employees that a resident had taken leave. The timekeepers told us that they did not have actual knowledge of residents' attendance. Therefore, they often missed days that the residents were on leave. Also, they did not maintain records of how much leave the residents earned or used during the AY.

VAMC Iowa City had an unwritten policy to not pay for residents' leave, which was contrary to the terms of the disbursement agreement. Timekeepers used the rotation schedules to reimburse the medical school, but the VAMCs did not pay the medical school for days that residents were not at the VAMC. However, since the timekeepers did not have actual knowledge of residents' attendance, the VAMC may have unknowingly paid for days when the residents were actually on leave.

Although VAMC Baltimore paid the medical school for resident leave, timekeepers did not always charge leave accurately or were not aware when leave was taken. The following example illustrates this problem:

> A Diagnostic Radiology Service timekeeper kept track of resident attendance for three reading rooms by requiring residents to sign in. If the sign-in sheet was missing a signature on a particular day, the timekeeper selected a resident at random and charged that resident leave. The timekeeper did not attempt to determine which resident had been assigned to the reading room or if a resident was actually on leave that day. As a result, recorded leave for this program was unreliable.

We attempted to determine if the VAMCs paid their proportionate share of resident leave. However, we were unable to calculate the total days of leave that the VAMCs paid for because three of the VAMCs did not maintain records of leave earned or taken and the fourth VAMC had inaccurate leave records.

Fiscal Procedures Were Not Adequate

The VAMCs did not implement adequate procedures to ensure that medical school bills were thoroughly reviewed and properly certified as correct before payment. At all four VAMCs, medical school bills certified as correct by VAMC employees contained errors. The six types of billing errors included mathematical errors, double billings, unallowable costs, Social Security costs for exempt residents, incorrect PGY levels, and the use of unapproved pay rates. As a result, for AY 2004–2005, we estimate that the four VAMCs underpaid the medical schools $44,324 ($11,081 for the quarter we reviewed x 4 quarters per year).

Mathematical Errors. Bills for VAMCs Iowa City and Charleston contained mathematical errors. A bill for VAMC Iowa City showed a total charge of $65,893 for January–March 2005 for one program. However, the totals for each month had been incorrectly added. The correct charge should have been $78,774, which meant the VAMC underpaid the medical school $12,881. On a VAMC Charleston bill, there were three instances where the number of days worked each month were added incorrectly. As a result, the VAMC underpaid the medical school $4,378.

Double Billings. Bills for VAMCs Charleston and Iowa City contained double billings for residents who rotated through more than one program during a single month as part of combined specialty programs.[2] We found two instances at both VAMCs Charleston and Iowa City where the combined number of days charged on the bills for the two programs exceeded the total number of days in the month, usually by 3 or 4 days. As a result,

[2] Residents in combined specialty programs receive training in two or more specialties. Examples of common combined specialty programs include Internal Medicine and Neurology, Internal Medicine and Psychiatry, or Psychiatry and Neurology.

VAMC Charleston overpaid the medical school $753 and VAMC Iowa City overpaid $470. At VAMC Iowa City, one resident was also listed twice in the same month in the same subspecialty, resulting in an additional $499 overpayment.

We also found that VAMC Iowa City mistakenly paid the medical school for a resident that the VAMC had also paid on a fee-basis appointment as the medical officer of the day (MOD). Subspecialty residents are permitted to provide MOD services, and be paid separately for those services, as long as the services are provided outside of their VA residency rotation. The payment under the disbursement agreement was improper and resulted in a $2,966 overpayment. However, this appeared to be an isolated case; we did not find similar overpayments at the other VAMCs.

Unallowable Costs. The VAMC San Francisco bill for January–March 2005 included $393 of unallowable dental, vision, life, and disability insurance costs. The medical school did not use the approved daily rates in developing their bills. Instead, they used the actual costs for each resident, which included optional benefits that were outside the standard coverage agreed to under the disbursement agreement.

Social Security Costs for Exempt Residents. Two of the four VAMCs incorrectly paid the medical schools a total of $2,728 for the employers' portion of Social Security (FICA) costs for residents who were exempt foreign nationals. Employers should not collect or pay FICA taxes for persons working in the United States under exchange visitor visas or student visas.

VAMC Baltimore was billed $12,240 for FICA costs for exempt residents for AY 2004–2005. VAMC employees, who did not thoroughly review the bills, were not aware of the error until we identified it during the audit. As a result of the audit, VAMC Baltimore excluded $2,570 in FICA costs from their unpaid April–June 2005 bill and initiated action to recover the remaining $9,670 AY 2004–2005 FICA overpayments from the medical school.

VAMC Iowa City also erroneously paid the medical school for a FICA exempt resident from January–March 2005. The medical school did not use the daily rates stipulated in the disbursement agreements. As a result, the VAMC overpaid a total of $158 for the 3-month period.

Incorrect PGY Levels. Two of the four VAMCs paid for residents based on incorrect PGY levels. Approved pay rates under the disbursement agreements are based on the residents' PGY levels—higher level residents are typically paid more than lower level residents. Overpayments at the VAMCs occurred for two reasons: (1) residents were incorrectly classified at higher levels or (2) lower level residents substituted for higher level residents, but the bills were not adjusted. At VAMC San Francisco, there was one instance of misclassification—a PGY 5 resident was incorrectly classified and reimbursed for as a PGY 6 resident—and one instance of substitution by a lower level

resident—the VAMC paid for a PGY 7 resident, but a PGY 6 resident actually worked at the VAMC. As a result, the VAMC overpaid the medical school $1,268 for January–March 2005. At VAMC Baltimore, there was one instance where a resident's PGY level was misclassified—a PGY 4 resident was classified and reimbursed for as a PGY 5 resident. As a result, the VAMC overpaid the medical school $67 for April–June 2005.

Unapproved Pay Rates. At VAMCs Iowa City and San Francisco, the medical schools did not prepare their bills using the OAA-approved daily rates stipulated in the disbursement agreements. Instead, bills were prepared using unapproved salary and fringe benefits costs extracted from the medical schools' payroll systems. VAMC employees were not aware that the medical schools were using unapproved rates because they did not verify the rates shown on the bills.

Although the VAMCs technically overpaid the medical schools during the 3-month period, we consider these errors to be more of a compliance issue. If medical school salary or fringe benefits costs increase during the year, VHA Manual M-8 allows for the payment rates to be amended with OAA approval. If the VAMC employees had properly verified the rates and identified the discrepancies between the billed rates and the approved rates, the medical schools could have requested that amended rates be approved by OAA.

No Oversight by VAMC Management

Based on our discussions with program managers and other officials at the 4 VAMCs and during our in-depth telephone surveys of 15 VAMCs, we found that none of the VAMCs had implemented adequate oversight procedures. Although the VAMC Directors typically assigned operational responsibilities to the ACOS/E or Education Coordinators, they did not assign oversight responsibilities. The VAMCs had no procedures to perform periodic reviews to assess overall program effectiveness and efficiency or the adequacy of timekeeping and fiscal procedures to prevent fraud and mismanagement.

Veterans Health Administration Policy Guidance

VHA's OAA did not provide sufficient guidance and instructions to VAMCs on how to effectively manage disbursement agreements. Significant portions of VHA Manual M-8 and VHA Directive 98-031 are vague and omit important issues, and they have no requirement that VAMC employees who are involved in managing disbursement agreements receive training.

Disbursement Agreement Policies Are Unclear and Incomplete

Program managers at the VAMCs told us that they were often unsure on how to interpret requirements contained in VHA Manual M-8 and VHA Directive 98-031 and that these

policies do not accurately reflect how residency training programs actually work. The following examples illustrate weaknesses in the policies:

Definition of Duty Day. VHA Manual M-8 does not explicitly define a resident's duty day. Instead, the mandatory disbursement agreement template contained in Appendix A of the manual provides the following definition:

> A day of duty is a 24-hour period during which the house staff member is assigned to and on duty at the VA Medical Center continuously and performing the normal and customary duties of a medical or dental resident. During this 24-hour period, the house staff member may be physically absent but on call to the medical center, or may be relieved from physical presence for evening, Federal holiday, weekend, or approved leave.

This definition is only applicable when residents are assigned full-time to VA, not the more typical situation in which higher level residents are only assigned part-time to VA and have duties at the affiliated medical school. For residents with part-time assignments, neither the disbursement agreement template nor VHA Directive 98-031 identifies the minimum number of hours a resident must be present at the VAMC to be credited with a full duty day. As a result, some VAMCs contacted during our telephone survey reported that they credited residents with full duty days for less than 8 hours and, in some cases, for less than 4 hours.

Sufficiency of Attendance Records. VAMC timekeeping practices varied widely, and there was confusion about what records were sufficient for verifying resident attendance. In addition, VHA Directive 98-031 is unclear about the specific requirements, as shown in the excerpt below:

> Accurate time and attendance records of resident training at the facility must be maintained by the VA facility, although time cards per se for individual residents are not mandated. VA shall maintain records that accurately document resident rotation and assignment schedules. If the basis for VA duty reimbursements is properly established and certified as accurate by the supervising official, such as the service chief, then individual timecards and attendance records will not be mandated, though the VA facility may choose this as its preferred method.

Although most VAMCs opted to use timecards to track resident attendance, we found that some VAMCs interpreted this policy as allowing them to use the medical school rotation and assignment schedules without verifying the accuracy of these schedules. In addition, the timecards were generally used only to document that residents had come to the VAMCs, but they were not used to record how long residents stayed at the VAMCs. As a result, timekeepers could not confirm the actual amount of time residents spent at the VAMCs. Program managers at the VAMCs told us that the administrative burden

associated with timekeeping was often excessive and that the VAMCs did not have the staff resources to comply with more stringent timekeeping requirements.

Disbursement Agreement Policies Do Not Require Training

VHA Manual M-8 and VHA Directive 98-031 do not require training for VAMC employees who manage disbursement agreements, perform timekeeping duties, or verify and certify medical school bills. This is in sharp contrast to other VHA policies that address activities such as clinical services contracting and timekeeping for part-time physicians. For example, the VA Acquisition Regulation requires that employees who verify and certify invoices for clinical services contracts receive training to perform these duties as Contracting Officer's Technical Representatives. However, VAMC employees who perform similar functions for disbursement agreements are not required to have such training. OAA does not provide training for VAMC employees or publish guidance updates to the VAMCs to clarify common issues.

Conclusion

Our audit provides reasonable assurance that OAA properly approved resident payment rates and that resident salaries and benefits were generally accurate and supported by medical school records. However, to strengthen management of disbursement agreement programs, VAMCs need to improve compliance with applicable policies and OAA needs to improve policy guidance and training. VAMCs had difficulty managing disbursement agreements and implementing adequate timekeeping, fiscal, and oversight procedures because they lacked general direction and guidance from OAA. Furthermore, OAA has no formal program in place to train program managers on their responsibilities for managing disbursement agreements.

For AY 2004–2005, we estimate that the 4 VAMCs overpaid the medical schools $635,340 due to inadequate timekeeping procedures in 19 (27 percent) of the 70 reviewed programs. In addition, we estimate that the VAMCs underpaid the medical schools $44,324 because of inadequate fiscal procedures.

Our discussions with OAA officials and the results of our telephone surveys indicate that the issues we identified during the four onsite reviews are widespread for medical and surgical subspecialty programs nationwide. Our telephone survey of the 113 VAMCs with disbursement agreements identified 41 (36 percent) VAMCs that did not require residents be present at the VAMC at least 8 hours to receive a full day's credit. As a result, OAA has no assurance that VA received its proportionate share of resident FTE or that disbursement agreement programs were effectively managed at the VAMCs.

Recommendations

We recommended that the Acting Under Secretary for Health ensure that OAA:

1. Requires all VAMCs with disbursement agreements to comply with operational and oversight requirements outlined in VHA policies.

2. Requires all VAMCs to conduct self-assessments of their time and attendance and payment practices to ensure appropriate rates and PGY levels are paid, Social Security exemptions are applied, unallowable costs are not factored into payments, and duplicate billings do not occur.

3. Updates and revises all policies and procedures pertaining to disbursement agreements and specifically address, at a minimum, the issues discussed in this report.

4. Develops a program to provide mandatory initial and periodic training to VAMC employees who are responsible for administering and overseeing disbursement agreements with affiliated medical schools.

The Acting Under Secretary for Health agreed with our findings and recommendations. On August 24, 2006, he reported that by the end of December 2006, the Chief Academic Affiliations Officer will convene a special field advisory group of qualified clinical, educational, and administrative officers to address the recommendations. By January 2007, the advisory group will study the issues identified in the report, create systems for fiscal and managerial oversight, and generate recommendations for national policy changes. In addition, all network offices have been provided with copies of this report, and identified issues have been discussed with network clinical managers during a national conference call. We consider these actions acceptable and will follow up on the implementation of planned improvement actions until they are completed.

Appendix A

Summary of Errors

Tables 1 and 2 in this appendix show the types of reimbursement and billing errors found at each VAMC and in each residency training program. Table 3 summarizes how we calculated the monetary benefit.

Table 1. Reimbursement Errors by VAMC

Reason	Location and Program	Paid FTE	Unaccounted FTE	Unaccounted Percent	Unaccounted for Amounts
	Charleston (October–December 2004)				
A,B	Dermatology	3.02	1.43	47.4%	$7,691
A,B	Rheumatology	0.78	0.49	62.8%	6,041
A,B	Neurology	1.73	0.78	45.1%	11,672
A,B	Psychiatry	1.48	0.32	21.6%	11,345
B	Neurological Surgery	1.01	0.14	13.9%	2,078
A,B	Ophthalmology	2.55	0.55	21.6%	6,884
A	Thoracic Surgery	1.01	0.73	72.3%	10,167
	Total				**$55,878**
	San Francisco (January–March 2005)				
A	Plastic Surgery	1.38	0.51	37.0%	$5,374
	Total				**$5,374**
	Iowa City (January–March 2005)				
B	Cardiology	4.72	1.01	21.4%	$15,382
B	Hematology/Oncology	1.41	0.36	25.5%	5,592
B	Pulmonary/Critical Care	1.58	0.27	17.1%	4,384
B	Ophthalmology	3.45	1.69	49.0%	25,210
B	Thoracic Surgery	1.89	1.65	87.3%	25,962
	Total				**$76,530**
	Baltimore (April–June 2005)				
A,B	Plastic Surgery	0.99	0.64	64.6%	$6,109
B	Ophthalmology	1.00	0.31	31.0%	4,372
B	Gynecology	0.75	0.26	34.7%	1,194
B	Neurological Surgery	1.00	0.15	15.0%	2,110
A,B	Cardiology	2.79	0.33	11.8%	4,767
B	Nephrology	0.78	0.18	23.1%	2,501
	Total				**$21,053**
	Combined Total – Four VAMCs	N/A	11.80	N/A	**$158,835**
	Annualized ($158,835 x 4 Quarters)				**$635,340**

Reasons

A Billed part-time resident as full-time

B Inaccurate rotation/assignment schedules used

Table 2. Billing Errors by VAMC

Location and Type of Error	Over or Underpayments
Charleston (October–December 2004)	
Mathematical Errors	($4,378)
Double Billings	753
Total	**($3,625)**
San Francisco (January–March 2005)	
Unallowable Costs	$393
Incorrect PGY Level Paid	1,268
Total	**$1,661**
Iowa City (January–March 2005)	
Mathematical Errors	($12,881)
Double Billings	969
FICA Taxes Paid for Exempt Residents	158
Total	**($11,754)**
Baltimore (April–June 2005)	
FICA Taxes Paid for Exempt Residents	$2,570
Incorrect PGY Level Paid	67
Total	**$2,637**
Combined Overpayments – Four VAMCs	$6,178
Combined Underpayments – Four VAMCs	($17,259)
Combined Total – Four VAMCs	**($11,081)**
Annualized Total ($11,081 x 4 Quarters)	**($44,324)**

Table 3. Monetary Benefit Calculation

Description	Dollar Amount
Estimated Annual Overpayments (Table 1)	$635,340
Less Estimated Annual Underpayments (Table 2)	($44,324)
Net Monetary Benefit	**$591,016**

Appendix B

Monetary Benefits in Accordance with IG Act Amendments

Recommendation	Explanation of Benefit	Better Use of Funds
1, 2, 3	Better use of funds by improving timekeeping, fiscal, and oversight controls over VA disbursement agreements for senior residents.	$591,016[3]

[3] In our original draft report, we estimated that nationwide, VA overpaid medical schools about $17.9 million for senior residents under disbursement agreements. However, based on comments we received from OAA officials, in which they expressed concern over our sampling methodology, we reduced the monetary benefit to the $591,016 to reflect the net overpayments found at the four VAMCs reviewed.

Appendix C

Acting Under Secretary for Health Comments

Department of Veterans Affairs **Memorandum**

Date: August 24, 2006

From: Acting Under Secretary for Health (10)

Subject: OIG Draft Report: **Audit of VA Disbursement Agreements for Senior Residents** (Project No. 2005-01234-R8-0100/WebCIMS 344497)

To: Assistant Inspector General for Auditing (52)

1. Thank you for the opportunity to respond to this draft report, which identifies improvement opportunities in VHA's management of senior resident disbursement agreements with our affiliated medical schools. I concur with your findings and recommendations, and with your estimate of monetary benefits at the four review sites.

2. I am convinced that the majority of our senior resident physicians conscientiously strive to fulfill the expectations of their VA training obligations, and that we exceed our proportionate share of resident FTE in many instances. At the same time, however, I acknowledge that inconsistencies among our medical facilities in timekeeping, fiscal and oversight practices make it difficult to quantify these perceptions, as your report confirms.

3. It is worth noting that in the four sites you audited there is a consistent correlation between the presence of strong educational leadership and the quality of administrative oversight. VHA will make additional efforts to ensure that educational leaders are both designated and trained to perform these critical oversight functions.

4. In follow-up to your findings, I have requested that the Chief Academic Affiliations Officer convene a special field advisory group, composed of qualified clinical, educational and administrative managers, to address oversight issues and to recommend a viable framework, including estimated timeframes for completion of corrective actions, in response to each identified need. The advisory group will be named by the end of September 2006, and convened by the end of December 2006. We anticipate that, at a minimum, it will require six months for the group to study the issues, create systems for fiscal and managerial oversight, and generate recommendations for national policy changes.

5. I have been advised that issues identified in your report have already been shared with the Network Chief Medical Officers during a recent national conference call. All network offices have also been provided with copies of the report, which will then be shared with individual facility leadership, as well.

Appendix C

Page Two OIG Draft Report: **Audit of VA Disbursement Agreements for Senior Residents** (EDMS 344497)

6. Thank you again for your assistance in helping us to focus on needed interventions in better administering our resident disbursement program. I particularly appreciate the collegial and cooperative manner exhibited by your auditors during this review, and welcome their feedback as we plan new oversight initiatives. If you require additional information, please contact Margaret M. Seleski, Director, Management Review Service (10B5), at 202-565-7638.

(original signed by:)
Michael J. Kussman, MD, MS, MACP

Attachment

Appendix C

Acting Under Secretary for Health Comments to Office of Inspector General's Report

VETERANS HEALTH ADMINISTRATION

Action Plan in Response to OIG Draft Report: **Audit of VA Disbursement Agreements for Senior Residents** (Project No. 2005-01234-R8-0100)

Recommendations/ Actions	Status	Completion Date

We recommend that the Under Secretary for Health ensure that OAA:

1. **Requires all VAMCs with disbursement agreements to comply with operational and oversight requirements outlined in VA policies.**

   Concur

   The Chief Academic Affiliations Officer will convene a special field advisory group, comprised of qualified clinical, educational and administrative officers, to address each of OIG's recommendations. The advisory group will specifically consider possible oversight mechanisms that can be systematically applied to assure that facilities are complying with established disbursement agreement policies. In addition, the Office of Academic Affiliations will continue to communicate policy compliance expectations to field facility managers through routine information exchange channels. All network offices have already been provided with copies of this report, and identified issues have also been discussed with network clinical managers during a recent national conference call. The advisory group will be named by the end of September 2006, and convened by the end of December 2006.

   Planned — January 2007 and Ongoing

2. **Requires all VAMCs to conduct self-assessments of their time and attendance and payment practices to ensure appropriate rates and PGY levels are paid, Social Security exemptions are applied, unallowable costs are not factored into payments, and duplicate billings do not occur.**

   Concur

   As part of their deliberations, the referenced field advisory group will address this recommendation, and oversee development of a national time and attendance/payment practices self-assessment guideline that can be utilized by facilities that maintain resident disbursement agreements.

   Planned — January 2007 and Ongoing

Page Two VHA Action Plan/OIG Draft Report: **Audit of VA Disbursement Agreements for Senior Residents** (Project No. 2005-01234-R8-0100)

3. Updates and revises all policies and procedures pertaining to disbursement agreements and specifically address, at a minimum, the issues disclosed in this report.

Concur

The field advisory group will review all existing policies and procedures pertaining to disbursement agreements and recommend updates and revisions as deemed necessary to reflect issues identified by OIG and other priorities. The Office of Academic Affiliations will subsequently oversee approved administrative policy and procedural revisions and field distribution.

Planned January 2007 and Ongoing

4. Develop a program to provide mandatory initial and periodic training to VAMC employees who are responsible for administering and overseeing disbursement agreements with affiliated medical schools.

Concur

Employee training needs for those staff administering disbursement agreements with medical schools will also be addressed by the field advisory group. Training priorities will be identified and follow-up training plans will be devised by the Office of Academic Affiliations, utilizing the expertise of the Employee Education System Office as indicated.

Planned January 2007 and Ongoing

Appendix D

OIG Contact and Staff Acknowledgments

OIG Contact	Claire McDonald (206) 220-6654
Acknowledgments	Myra Taylor Gary Abe Danny Bauwens Kevin Day Barry Johnson Sherry Ware

Appendix E

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