

**HEALTH CARE RESOURCES CONTRACTING: EDUCATIONAL COSTS OF
PHYSICIAN AND DENTIST RESIDENT TRAINING**

1. REASON FOR ISSUE: This directive sets forth revised policy and responsibilities for implementing and managing the reimbursement of Veterans Affairs' (VA's) pro-rata share of educational costs for Graduate Medical Education (GME) or Graduate Dental Education (GDE) to the sponsors of affiliated programs.

2. SUMMARY OF MAJOR CHANGES: This Veterans Health Administration (VHA) directive revises and replaces VHA Handbook 1400.10, Health Care Resources Contracting: Educational Costs of Physician and Dentist Resident Training Pursuant to Title 38 United States Code 8153, dated November 16, 2012. This directive provides more detail regarding authorized costs that may be reimbursed.

3. RELATED ISSUES. VHA Handbook 1660.03, Conflict of Interest Aspects of Contracting for Sharing of Health-Care Resources, dated November 4, 2015; VHA Handbook 1400.05, Disbursement Agreements Procedures dated August 14, 2015; VA Handbook 5007/29, Part II, Appendix E, Compensation of Noncareer Residents Serving, dated July 6, 2007; VA Directive 1663, Health Care Resources (HCR) Contracting - Buying, Title 38 U.S.C. 8153, dated May 10, 2018.

4. RESPONSIBLE OFFICE. The Office of Academic Affiliations (10X1) and the VHA Procurement and Logistics Office, Medical Sharing/Affiliate Office (MSO) (10NA2) are responsible for the content of this directive. Questions may be addressed to Office of Academic Affiliations at 202-461-9490.

5. RECISSIONS. VHA Handbook 1400.10, dated November 16, 2012, is rescinded.

6. RECERTIFICATION. This VHA directive is scheduled for recertification on or before the last working day of May 2025. This VHA directive will continue to serve as national VHA policy until it is recertified or rescinded.

**BY DIRECTION OF THE UNDER
SECRETARY FOR HEALTH:**

/s/ Carolyn M. Clancy, M.D.
Assistant Under Secretary for Health for
Discovery, Education and Affiliate
Networks

May 20, 2020

VHA DIRECTIVE 1400.10

NOTE: *All references herein to VA and VHA documents incorporate by reference subsequent VA and VHA documents on the same or similar subject matter.*

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HEALTH CARE RESOURCES CONTRACTING: EDUCATIONAL COSTS OF PHYSICIAN AND DENTIST TRAINING

1. PURPOSE

This Veterans Health Administration (VHA) directive implements Department of Veterans Affairs (VA) Health Care Resources (HCR) Sharing Authority under Title 38 United States Code (U.S.C.) Sections 8151 through 8153. This directive details the standards for use of contracts for the VA pro-rata share of educational costs. These include contracts with the sponsors of affiliated programs under which physician or dental residents participate in providing health care services to VA beneficiaries.

AUTHORITY: 38 U.S.C. 8151 through 8153.

2. BACKGROUND

a. The authority for the conduct of residency and student training programs is contained in 38 U.S.C. 7302. The legal authority for disbursement agreements is contained in 38 U.S.C. 7406(c) which authorizes VA to enter into disbursement agreements with one or more hospitals, medical schools, or medical installations having hospital facilities for the central administration of physician resident salaries and benefits. The law specifies that VA may only pay an affiliate to cover the cost for the period that a resident actually serves in a VA medical facility. As a matter of policy, VA does not pay an affiliate's general administrative costs through a disbursement agreement, (see VHA Handbook 1400.05, Disbursement Agreement Procedures For Physician and Dentist Residents dated August 14, 2015 or subsequent issuances, for disbursement agreement procedures). However, pursuant to 38 U.S.C. 8153, the administration of physician and dental residency programs have been deemed commercial health care resources. VA may enter into contracts with an affiliate for certain health care resources which in this directive are identifiable and pro-rated expenses associated with maintaining residency programs. These expenses are required to maintain residency programs in VA, and thus are integral to the provision of health care services to VA beneficiaries.

b. Disbursement agreements only cover stipend and benefits provided to trainees, but do not include direct or indirect costs associated with maintaining residency programs. Because physician residents make up nearly 40 percent of VHA's physician workforce and play a major role in providing care to Veterans, it is important that VA reimburse pro-rated educational expenses associated with maintaining these residency programs. The specific mechanism for doing so is outlined below. **NOTE:** *VHA policy on the payment of resident physician and dentist salaries and benefits through disbursement agreements is set forth in VHA Handbook 1400.05. Disbursement agreement procedures do not allow educational or administrative costs to be included in disbursement payments. Disbursement agreements pay benefits that accrue to individual residents but are not part of overhead or administrative costs for maintaining residency programs.*

c. VHA Directive 1400, Office of Academic Affiliations, dated November 9, 2018, mandates that all educational programs maintain accreditation. When VA medical

centers bear their reasonable and proportional share of the costs of operating physician and dental residency training programs, this assists in maintaining accreditation of the educational program. Participation in the education of health care professionals is a statutory mission for VHA, but also contributes greatly to the health care workforce in VA and allows Veterans to receive the highest possible quality of care.

d. The “pro-rata share” of educational costs needs to be established in the contract with the affiliate and may include some or all of those costs of Graduate Medical Education (GME) or Graduate Dental Education (GDE) set forth in paragraph 6.f., in a proportional fashion to the total number of residents in the affiliates’ training programs.

3. DEFINITIONS

a. **Accreditation.** Accreditation means a status of public recognition that an accrediting agency grants to an educational institution or program that meets the agency’s established standards and requirements. Accreditation represents a professional opinion about the quality of an educational program. ***NOTE: Educational programs must be accredited, or seeking accreditation, before VA may affiliate with the program.***

b. **Affiliation.** An affiliation is a relationship between VA and an educational institution or a health care organization sponsoring educational programs or activities. Affiliations are for the purpose of education, research, or enhanced patient care. The affiliation relationship implies that VA and the affiliate have a shared responsibility for the educational enterprise while the training site retains full responsibility for the care of patients, including related administrative and professional functions. Affiliations are not exclusive relationships. Affiliations are executed by a signed affiliation agreement.

c. **Health Care Resources.** Health care resources include hospital and ambulatory care, mental health services, medical and surgical services, examinations, treatment, rehabilitative services and appliances, preventive health care, prosthetics, and other health care services. The term also includes health care support and administrative resources, the use of medical equipment, or the use of space. Health care support and administrative resources include those services, apart from direct patient care, determined necessary for the operation of VA facilities. For the purposes of this policy, the term health care resources means the reasonable and proportional share of the administrative costs of operating physician and dental residency programs.

d. **Non-competitive Health Care Resources Contract.** A non-competitive health care resources contract consists of commercial services with an affiliated academic institution, a teaching hospital associated with an affiliated medical college, an individual physician or practice group associated with the medical college, or associated teaching hospital.

e. **Residents.** Residents are trainees who are engaged in an accredited graduate training program for physicians or dentists and who participate in patient care under the direction of supervising practitioners.

f. **Sponsoring Institution.** A sponsoring institution is an organization or entity that assumes the legal responsibility for trainees enrolled in VA educational experiences. The sponsoring institution is the entity in whose name affiliated programs are accredited, and with whom VA must have an affiliation agreement to permit clinical training at VA.

4. POLICY

It is VHA policy that medical centers are authorized to reimburse sponsoring institutions for the reasonable and proportional share of selected costs of operating physician and dental residency training programs, when these programs send residents to VA, thereby ensuring the maintenance of residency programs and the provision of health care services to Veterans. Non-competitive contracts (described below) must be used for these payments. Medical centers must use Veterans Equitable Resource Allocation model (VERA) funding (and not Office of Academic Affiliations (OAA) funds) for these payments.

5. RESPONSIBILITIES

a. **Under Secretary for Health.** The Under Secretary for Health is responsible for ensuring overall VHA compliance with this directive.

b. **Deputy Under Secretary for Health for Operations and Management.** The Deputy Under Secretary for Health for Operations and Management is responsible for:

(1) Communicating the contents of this directive to each of the Veterans Integrated Services Networks (VISNs).

(2) Ensuring that each VISN Director has the sufficient resources to fulfill the terms of this directive in all of the VA medical centers within that VISN.

(3) Providing oversight of VISNs to assure compliance with this directive, relevant standards, and applicable regulations.

c. **Deputy Under Secretary for Health for Discovery, Education, and Affiliate Networks.** The Deputy Under Secretary for Health for Discovery, Education, and Affiliated Networks is responsible for:

(1) Overseeing and advancing the health professions education mission for VA.

(2) Ensuring that OAA has sufficient resources to carry out the mission and the responsibilities in this directive.

(3) Providing senior executive leadership guidance to OAA.

d. **Director, VHA Procurement and Logistics Office, Medical Sharing Affiliate Office.** The Director of VHA Procurement and Logistics Office, Medical Sharing Affiliate Office (MSO) is responsible for:

- (1) Processing and approving all reviews of educational cost contracts.
- (2) Coordinating reviews with the Office of General Counsel and OAA as required in the VHA Procurement Manual.
- (3) Creating and maintaining template documents needed by the Contracting Officer and customer for a Requirements Package.

e. **Chief Officer, VHA Office of Academic Affiliations.** The Chief Officer VHA Office of Academic Affiliations is responsible for:

- (1) Participating in reviews of health care contracts as required by the Deputy Under Secretary for Health for Operations and Management and VHA Procurement and Logistics Office, MSO.
- (2) Assisting in the annual review of health care contracts in order to provide insight concerning the reasonableness of the funding requested and cross-facility comparisons.
- (3) Serving in an advisory capacity to VA medical centers that seek advice on the appropriateness of educational costs for inclusion in these contracts.
- (4) On a case-by-case basis, approving cost categories for inclusion in contracts with an affiliated sponsoring institution that are not listed in paragraph 6.g. of this directive as requested by VA medical centers.

f. **Veterans Integrated Service Network Directors.** VISN Directors are responsible for ensuring adequate staffing and resources are available for the health professions education function at VA medical centers within the VISN, including payments required for educational cost contracts with affiliates.

g. **VA Medical Center Director.** The VA medical center Director is responsible for:

- (1) Determining whether it is appropriate to contract for the payment of selected, pro-rata share of educational costs with an affiliated sponsoring institution.
- (2) Approving the request for an educational cost contract. **NOTE:** *VA medical center Directors are encouraged to use a portion of the Veterans Equitable Resource Allocation (VERA) indirect education funds to support these contracts for payment of selected educational costs.*
- (3) Designating a Designated Education Officer (also called Associate Chief of Staff (CoS) for Education) for the oversight of GME programs, GDE programs, and all other clinical training programs. All VA medical centers must have a designated DEO.

(4) Assigning oversight of educational cost contracts to the COS, DEO or other non-conflicted individual. **NOTE:** See VHA Handbook 1660.03, *Conflict of Interest Aspects of Contracting for Sharing of Health-Care Resources*, dated November 4, 2015.

h. **VA Medical Center Chief of Staff.** The VA medical center COS is responsible for making recommendations to the VA medical center Director regarding determination of physician and dental resident educational costs as fair and reasonable (determined by comparison with national and historical costs for the same or similar services).

i. **VA Medical Center Designated Education Officer.** The DEO describes a functional assignment and not an organizational title. The most common and preferred organizational title is Associate Chief of Staff for Education. The DEO is responsible for:

(1) Serving as the single designated VA employee with oversight responsibility for all clinical trainees and their training programs at each VA medical center that either sponsors or participates in accredited training programs.

(2) Assisting the COS in verifying the educational cost estimates provided by the affiliated sponsoring institution.

j. **Contracting Officer.** The VA medical center Contracting Officer is responsible for:

(1) Assisting in acquisition planning.

(2) Reviewing the Requirements Package, which consists of the supporting documents required by the customer for executing an Educational Healthcare Contract.

(3) Obtaining all required reviews in accordance with the VHA Procurement Manual and incorporating all changes required by MSO, OAA, and Office of General Counsel.

6. PROCEDURES FOR ESTABLISHING EDUCATIONAL COST CONTRACTS

a. **Contracting for Pro-rata Share of Payment of Selected Educational Costs related to Physician or Dental Resident Training.** Only specific information regarding the special requirements of this directive is included in subsequent paragraphs. General information applicable to these agreements can be found in the following references: VA Directive 1663, Health Care Resources Contracting – Buying, Title 38 U.S.C. 8153, dated May 10, 2018; VA Handbook 5007/29, Part II, Appendix E, Compensation of Noncareer Residents Serving Under 38 U.S.C. 7406; and VHA Handbook 1400.05, which establishes VHA policy regarding allowable reimbursement for physician and dental resident stipend and fringe benefits.

b. **Enabling Agreements.** Prior to initiating a health care resources contract, the VA medical center must have valid affiliation and disbursement agreements in place using the processes described in VHA Handbook 1400.05 and VHA Handbook 1400.03. In accordance with this handbook, both agreements must be approved and

signed by OAA. In addition, each covered program must also have a program letter of agreement (PLA), which does not require OAA approval, on file with the DEO and available for review if requested. Of these agreements, only the disbursement agreement may deal with financial considerations pertinent to program and affiliation relationships. In the case of a community-based outpatient clinic (CBOC), all agreements must be with the parent VA medical center.

c. **Established Contracts.** The contracts established pursuant to this directive are related to the acquisition of the services of physician and dental residents in affiliated residency programs who provide health care to VHA beneficiaries as part of their clinical training. These contracts pertain to certain administrative and educational costs only as described in paragraph 6.g. below, and do not include the salary and benefits of physician or dental residents.

d. **Appropriate Entity for a Contract.** The entity with which a local VA medical center may enter into a GME or GDE educational cost contract must be the sponsoring institution or its disbursing agent (the entity that pays the residents' stipends and fringe benefits as an agent of VA). **NOTE:** See *VHA Handbook 1400.05*. The sponsoring institution must be listed as such on the affiliation agreement. Program-by-program or clinical department-by-department contracts are not allowable under this policy.

e. **Sole-source Awards.** Sole-source awards (non-competitive contracts) with affiliates must be used whenever a contract is considered for the payment of pro-rata share of educational costs.

f. **Rate of Reimbursement.** The rate of reimbursement for the educational costs of GME or GDE must be pro-rated based upon the total number of VA filled positions divided by the total number of resident positions in comparable GME or GDE programs at the affiliate for approved costs only. **NOTE:** *Programs which do not rotate residents to VHA (e.g., pediatrics) do not need to have their positions included in the denominator unless they are included in the invoice.* For example:

(1) The VA medical center pays for 25 resident FTEE and wants to pay for 25 FTEE of allowable expenses (pro-rated share). The VA medical center receives an invoice for pagers that includes all of the residents (100 FTEE (total number of residents in programs that send residents to VA) + 20 pediatrics (program that does not rotate at all to VA)).

(2) The VA medical center can either recalculate the invoice to exclude pediatrics or use the larger denominator and pay a smaller percentage.

(3) **Sample Calculations.** Invoice = \$30,000 includes pagers for 120 residents (100 that rotate to VA + 20 that do not):

(a) Calculation 1: $\$30,000 \times (100 \text{ allowable} / 120 \text{ total}) = \$25,000$ invoice for 100 residents that rotate to VA. $25/100 \text{ FTEE (VA Share)} \times \$25,000 = \$6,250$; or

(b) Calculation 2: \$30,000 total invoice x VA total share = \$30,000 x (25 VA FTE / 120 total FTE) = \$6,250.

g. **Types of Expenses Allowed.** The following categories of educational costs may be included in contracts with an affiliated sponsoring institution. All expenses must support the operational costs of the residency program or be required for accreditation. **NOTE:** *These examples are provided for guidance only; each VA medical center needs to decide which cost categories to include on a case-by-case basis. Cost categories not listed must be approved in advance by OAA in order to be approved for a VA medical center's educational cost contract.*

(1) Accreditation fees, including per program annual assessments and per resident fees for use of online procedure logs. The allowable accrediting bodies for physician and dentist education include: Accreditation Council for Graduate Medical Education (ACGME), American Osteopathic Association (AOA), and Commission on Dental Accreditation (CODA).

(2) National Resident Match Program (NRMP or "Match") participation fees for the program and not individual residents.

(3) In-service examination fees.

(4) Residency program management software fees (e.g., "New Innovations", "Medhub", or "E*Value™") only if VHA-based professional staff have access to the resident and program specific data in these applications on a need-to-know basis.

(5) Required training, such as Advanced Cardiac Life Support (ACLS) and recertification, as long as this service is not available to GME and GDE trainees at the VA medical center

(6) User fees for simulation training, provided an equivalent simulation experience is not available on-site at the local VA medical center.

(7) Mobile communication devices (e.g., pagers, cell phones, Personal Digital Assistant (PDAs)), if not provided by VA medical center, devices covered should be functional on VA medical center grounds and must not become property of the resident at the conclusion of training.

(8) Recruitment expenses, to include only the following: electronic sites (e.g., FRIEDA), printing brochures, mailing cost, reproduction costs, and advertisement expenses. Orientation expenses such as food, refreshments and meals must not be reimbursed.

(9) Lab coats, provided they are required by the program and do not become property of the resident at the conclusion of training.

(10) Expenses related to accreditation requirements at the VA, including meals while "on call" at the VA (if not already provided by the VA) and fatigue mitigation

measures such as safe transportation to and from the VHA training site. Parking costs at the affiliate must not be reimbursed.

(11) Other. Justification and OAA approval are required.

h. **Types of Expenses Not Allowed.** The following categories of educational costs must not be included in HCR contracts for reimbursement to an affiliated sponsoring institution:

(1) State licensing fees for individual residents.

(2) National licensing examination (e.g., United States Medical Licensing Exam (USMLE)) fees or registration for individual residents.

(3) Board certification examination fees for individual residents.

(4) Malpractice insurance coverage while at the affiliate (VA is self-insured against claims brought under the Federal Tort Claims Act).

(5) Administrative expenses (e.g., for salary of program directors or program coordinators, GME office staff, and office supplies).

(6) Recruitment or orientation expenses that involve meals, travel, or entertainment.

(7) Affiliate or VA medical faculty salaries or benefits.

(8) Devices, education materials (books, journals, subscriptions, etc.), or lab coats that become the personal property of the resident.

(9) Book funds or travel funds.

i. **Coordination of Reviews.** In accordance with the VHA Procurement Manual, the VHA Procurement and Logistics Office, MSO coordinates the review and communicates the results to the VA medical center submitting the proposed contract award. Local contracting officials are responsible for incorporating all changes required by MSO and Office of General Counsel.

7. TRAINING

There are no formal training requirements associated with this directive.

8. RECORDS MANAGEMENT

All records regardless of format (e.g., paper, electronic, electronic systems) created in this directive shall be managed per the National Archives and Records Administration (NARA) approved records schedules found in VA Records Control Schedule 10-1. Questions regarding any aspect of records management should be addressed to the appropriate Records Manager or Records Liaison.

9. REFERENCES

- a. 38 U.S.C. 7302.
- b. 38 U.S.C. 7406.
- c. 38 U.S.C. 8151-8153
- d. 48 CFR Chapter 1.
- e. VA Directive 1663, Health Care Resources Contracting - Buying, Title 38 U.S.C. 8153, dated May 10, 2018.
- f. VA Directive 5025, Legal, dated April 15, 2002.
- g. VA Handbook 5005, Staffing, dated September 5, 2014.
- h. VA Handbook 5007/29, Part II, Appendix E, Compensation of Noncareer Residents, dated July 6, 2007
- i. VA Handbook 5025, Part IV, Legal, Ethical Conduct, dated April 15, 2002.
- j. VHA Directive 1400, Office of Academic Affiliations, dated November 9, 2018.
- k. VHA Directive 1400.09, Education of Physicians and Dentists, issued September 9, 2016.
- l. VHA Handbook 1400.05, Disbursement Agreements Procedures, dated August 14, 2015.
- m. VHA Handbook 1400.03, Educational Relationships, dated February 16, 2016
- n. VHA Handbook 1660.03, Conflict of Interest for the Aspects of Contracting for Sharing of Health-Care Resources (HCR), dated November 4, 2015.