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DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

OCT 18 1994

6328 Security Boulevard
Baltimore, MD 21207-5107

Mr. Leonard S. Brauner
Director, Health Care Advisory Services
Coopers & Lybrand
City Center Square
1100 Main Street
Suite 900
Kansas City, MO 64105-2175

Dear Mr. Brauner:

I am responding to your recent letter regarding an audit adjustment proposed by a Medicare fiscal intermediary (FI) on the costs of operating a school of nursing at a hospital you represent.

The hospital is the operator of the program and all classroom instruction is performed on the hospital's premises. Approximately 50 to 60 percent of the clinical training is conducted at the hospital. The remaining clinical training is conducted at various unrelated neighboring facilities, and the hospital receives no payment from any of these facilities for the student nurses' services.

The FI has proposed prorating the approved costs of both the clinical and classroom training based on the hours the students spend in clinical training at the hospital versus that spent at outside facilities. The FI has further proposed to reduce both the direct and indirect costs by the portion of time that the students participate in clinical training outside the hospital.

We agree it appears that the FI is incorrectly applying the payment principles applicable to interns and residents to this situation. There is no provision for prorating a hospital's approved costs of nursing and allied health education based on the percentage of time the students spend at the hospital versus time spent in clinical training outside the hospital.

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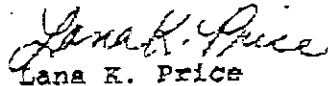
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Thus, based on the information you have provided, we believe the PI's proposed adjustment is incorrect. All approved costs should be paid on a pass-through basis without regard to the percentage of time that the students receive clinical training away from the hospital's premises. Should this letter not resolve the problem, please do not hesitate to contact us again.

Sincerely yours,



Lana K. Price

Director

Division of Hospital Payment Policy