

VHA MANAGERIAL COST ACCOUNTING SYSTEM

1. PURPOSE: This Veterans Health Administration (VHA) Directive mandates use of the VHA Decision Support System (DSS) to meet the Federal Government's Managerial Cost Accounting (MCA) requirements, and it defines DSS data timeliness guidelines and certification requirements.

2. BACKGROUND

a. Department of Veterans Affairs (VA) Office of Finance (OF) Bulletin O6.GC2.09, Annual Managerial Cost Accounting Certification (see subpar. 5a), requires that the Under Secretary for Health and the VHA Chief Financial Officer (CFO) annually certify to the VA CFO that VHA complies with the MCA requirements stated in the Bulletin. These requirements include compliance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government (see subpar. 5b), and SFFAS No. 7, Accounting for Revenue and Other Financing Sources (see subpar. 5c), that require Federal reporting entities to accumulate and report the costs of their activities on a regular basis. SFFAS No. 4 specifically requires agencies of the Federal Government to:

- (1) Perform cost accounting and implement cost accounting procedures.
- (2) Identify and cost products and services by responsibility segments.
- (3) Capture the full cost of products and services.
- (4) Include inter-entity costs as part of full costs.
- (5) Select and consistently use an acceptable costing methodology.

b. VHA implemented DSS to meet the preceding reporting requirements. In 1998, the Acting Under Secretary for Health approved DSS as VHA's designated MCA system (see subpar. 5d). The information derived from DSS provides VA managers with comparable cost and clinical information for use in making clinical decisions, managing workload, and controlling medical care costs.

c. DSS has been certified as meeting all mandatory requirements specified by the Government Accountability Office (GAO) in the Joint Financial Improvements Program (JFIMP) Managerial Cost Accounting System Requirements (see subpar. 5e). OF Bulletin OIGC2.03, Self-Certification: Compliance with Statement of Federal Financial Accounting Standard Nos. 4 and 7 for VHA Stations (see subpar. 5f), states that DSS, if properly implemented and used (including the inclusion of full costs), satisfies all of these requirements.

VHA DIRECTIVE 2006-020**April 25, 2006**

Therefore, any facility with a fully-functional DSS system that produces timely (i.e., current year) data is able to certify compliance with these requirements. Facilities whose DSS system is not functional or who cannot produce timely data may be unable to certify compliance.

d. Definitions

(1) **Budget Formulation.** Inpatient and outpatient costs are provided in detail in both fixed and variable categories allowing for formulation of long and short term planning scenarios.

(2) **Budget Allocation.** The Veterans Equitable Resource Allocation (VERA) methodology has included elements of DSS since Fiscal Year (FY) 2001 and continues to include DSS patient costing as the data source for developing the allocations. Currently, DSS provides all patient cost information used for VERA including the calculations for high cost patients.

(3) **Budget Execution.** Costs are displayed at various levels in DSS as Direct or Indirect and Fixed or Variable. Inpatient costs are viewable by Treating Specialties or Diagnostic Related Groups (DRG). Outpatient costs are viewable at the clinic stop level. The data base also provides costs at the intermediate product level (e.g., cost of a specific lab test or primary care visit). All cost information in DSS is reconciled to the VA Financial Management System (FMS).

(4) **Prices for Sharing Agreements.** The CFO Act of 1990 (see subpar. 5g) requires a bi-annual review of fees, royalties, rents, and other charges imposed by VA for services and things of value it provides and to make recommendations on revising those charges to reflect changes in cost. OF Bulletin O1GC2.03 states that DSS provides the information needed for facilities to certify compliance with this requirement.

(5) **Cost to Collect Revenues.** To capture the full cost in the collection process for the Medical Care Collections Fund (MCCF), VHA requires use of DSS. Costs are fragmented organizationally at facilities and Networks in VHA cost centers with many collateral duties. However, DSS provides the capability to provide the cost of the collection function to include all elements of cost.

3. POLICY: It is VHA policy that budget formulation, budget allocation, budget execution, determining prices for sharing agreements, and calculating costs to collect revenues must be conducted using DSS cost and workload information; all VHA reports displaying cost and workload information need to use DSS-based data.

4. ACTION

a. **Under Secretary for Health.** In accordance with OF Bulletin O6.GC2.09, the Under Secretary for Health annually certifies that VHA is in compliance with all Federal Managerial Cost Accounting requirements.

April 25, 2006

b. **VHA Chief Financial Officer.** The VHA CFO serves as the executive sponsor for the DSS Program and annually certifies to the Under Secretary for Health that the VHA OF uses DSS information to support the following activities:

- (1) Budget formulation, allocation, and execution.
- (2) Establishing prices for sharing.
- (3) Reporting the cost to collect revenue.

c. **VHA Office of Finance Decision Support Office (DSO) (175).** DSO is responsible for:

- (1) Serving as the DSS Program Office with responsibility for operation and maintenance of DSS.
- (2) Preparing all recurring and ad hoc reports required for senior VHA leadership to satisfy internal and external queries for MCA data and information.
- (3) Populating and maintaining the DSS Reports website (see subpar. 5h) as a means of disseminating MCA data and information reports to all levels of VHA.
- (4) Assisting the Veterans Integrated Service Networks (VISNs) and VA facilities with ongoing training that allows them to process data within the established guidelines.
- (5) Annually providing detailed instructions for VA facility certification of DSS records.

d. **VISN Director.** Each VISN Director annually certifies to the VHA CFO and Under Secretary for Health that the VISN uses DSS information to support the following activities:

- (1) Budget formulation, allocation, and execution.
- (2) Establishing prices for sharing.
- (3) Reporting the cost to collect revenue.

e. **VISN Chief Financial Officer.** Each VISN CFO annually certifies to the VISN Director, VHA CFO, and Under Secretary for Health, that the VISN uses DSS information to support the following activities:

- (1) Budget formulation, allocation, and execution.
- (2) Establishing prices for sharing.
- (3) Reporting the cost to collect revenue.

VHA DIRECTIVE 2006-020

April 25, 2006

f. **Facility Director.** Each facility Director is responsible for:

- (1) Providing an annual certification of their DSS records to the VHA CFO, through their respective VISN CFO and VISN Director, in accordance with published instructions.
- (2) Ensuring that DSS financial data is processed within 15 days after the end of the month and clinical data within 60 days after the end of the month, so that VHA can meet cost reporting requirements of external bodies such as Congress, GAO, and the Office of Management and Budget (OMB).
- (3) Providing dedicated DSS facility team staffing and other resources required to meet these guidelines.

5. REFERENCES: The following references are available at website

http://vaww.dss.med.va.gov/programdocs/pd_fedregs.asp :

- a. VA OF Bulletin O6.GC2.09, Annual Managerial Cost Accounting Certification.
- b. FASAB, SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government.
- c. FASAB, SFFAS No. 7, Accounting for Revenue and Other Financing Sources.
- d. Memo from VHA CFO, Requirements for a VHA Cost Accounting System, November 6, 1998.
- e. System Requirements for Managerial Cost Accounting, published by the Joint Financial Management Improvement Program (JFMIP).
- f. VA OF Bulletin O1GC2.03, Self Certification Compliance with SFFAS Numbers 4 and 7 for VHA Stations.
- g. GAO, CFO Act of 1990.
- h. DSS Reports website: http://klfmenu.med.va.gov/dss_reports/ .
- i. VA Handbook 4560.1.
- j. Current VHA policy on reporting the cost to collect medical care cost funds.

6. FOLLOW-UP RESPONSIBILITY: The Associate Chief Financial Officer, Decision Support Office (175), is responsible for the contents of this Directive. Questions may be directed to 202-273-5606.

VHA DIRECTIVE 2006-020
April 25, 2006

7. RESCISSIONS: None. This VHA Directive expires on April 30, 2011.

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