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**GUIDELINES FOR SELF-CERTIFICATION REVIEWS FOR SHARING
AGREEMENTS UNDER TITLE 38 U.S.C., SECTION 8153 AND SECTION 8111**

1. PURPOSE: This Veterans Health Administration (VHA) Directive defines the self-certification requirements for sharing agreements.

2. BACKGROUND

a. The Chief Financial Officers Act of 1990 (known as the Chief Financial Officer (CFO) Act) requires a biennial review of “fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.”

b. Each Veterans Health Administration (VHA) facility is required to biennially certify that:

(1) Its cost accounting procedures comply with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, and

(2) It complies with Federal pricing policies and has fully disclosed situations where it does not comply with those policies, as required by SFFAS No. 7.

c. Attachment A provides guidance for self-certification requirements for Department of Veterans Affairs (VA)-Department of Defense (DOD) Agreements, Enhanced Sharing Agreements, and TRICARE contracts, under Title 38 United States Code (U.S.C.) Section 8111 (VA-DOD Sharing and TRICARE), and 38 U.S.C. Section 8153 (Enhanced Sharing Authority). The Financial Quality Assurance Service (FQAS) performs Self-certification Validation Reviews at the facility level. Review findings must be forwarded to the Office of Inspector General.

d. **Definitions**

(1) **Full Costs (SFFAS 4).** The sum of the costs of:

(a) Resources consumed by the segment directly or indirectly contributed to the output, and

(b) Identifiable supporting services provided by other responsibility segments within the facility, Network and VHA Central Office offices.

(2) **Local Direct Costs (see VHA Directive 1660.1).** Total of fixed direct, variable labor, variable supplies, and depreciation, or (OF 01GC2.04) the sum of fixed direct, variable supply, and variable labor costs as defined in the Decision Support System (DSS).

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(3) **Incremental Costs (Accounting Dictionary).** The change in aggregate cost that accompanies the addition or subtraction of a unit of output.

(4) **Market Price (OF 01GC2.04).** The price for a good, a resource, or a service, that is based on competition in open markets, and creates neither a shortage nor a surplus of the good resource, or service.

(5) **Variable Costs (OF 01GC2.04).** Costs that remain uniform for each unit of production, but fluctuate in total direct proportion to changes in total activity or volume.

3. POLICY: It is VHA policy that self-certification forms be completed and forwarded in accordance with reporting dates published by the VHA Office of Finance (17).

4. ACTION: Veterans Integrated Service Network (VISN) Directors are responsible for ensuring that the appropriate self-certification bulletins are completed and forwarded in a timely manner. **NOTE:** See Attachment A for requirements and following paragraph 5 for a list of the appropriate bulletins from the VA Office of Finance (047).

5. REFERENCES

- a. VHA Handbook 1660.1, VA-DOD Health Care Resources Sharing.
- b. VHA Directive 1660.1, Enhanced Health Care Resources Sharing Authority- Selling.
- c. Office of Finance (OF) Bulletin 01GC2.03, Certifying Compliance with Standard No. 4.
- d. OF Bulletin 01GC2.04, Certifying Compliance with Standard No. 7.

6. RESPONSIBLE OFFICE: The VHA Chief Financial Officer (17) is responsible for the contents of this Directive. Questions may be referred to 202-273-8408.

7. RESCISSIONS: None. This VHA Directive expires August 31, 2008.

S/ Louise Van Diepen for
Robert H. Roswell, M.D.
Under Secretary for Health

Attachment

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ATTACHMENT A

GUIDELINES FOR OFFICE OF FINANCE
SELF-CERTIFICATION REVIEWS

1. Title 38 United States Code (U.S.C.) Sections 8111 and 8153, sharing authorities allow Department of Veterans Affairs (VA) facilities to enter into sharing agreements and contracts with Department of Defense (DOD) facilities, TRICARE contractors, and all other entities, including: medical colleges, community hospitals, clinics, blood banks, and state and county agencies. Under both authorities, VA can make available (or sell) resources that are not being maximized for veterans health care. Also, both authorities provide their own cost guidance, allowing facilities to negotiate sharing agreements in the “best interest of the Federal government,” and without degrading services to enrolled veterans. In certain circumstances, a VA facility could enter into a sharing agreement for less than “full cost,” if the agreement was necessary to “maintain a standard practice of care.” Though such an agreement would be within policy and statute, the facility would be required to report such an agreement as being less than “full cost” during self-certification to be in compliance the Chief Financial Officers Act of 1990 (known as the CFO Act). **NOTE:** *A definition of terms, including full cost, is in subparagraph 2c of the Directive.*

2. Statement of Federal Financial Accounting Standard (SFFAS) No. 4 requires Federal entities to implement managerial cost accounting.

a. It 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, and
- (5) Select and consistently use an acceptable costing methodology.

b. Utilization of the Decision Support System (DSS) yields the most accurate VHA resource for full-cost recovery, satisfying the aforementioned requirements (see subpar. 2a), when the product or service is a clinical service or procedure; e.g., outpatient visit, diagnostic test, or inpatient episode. Every station processing, updating, and maintaining DSS data on a timely basis can certify as to compliance with SFFAS 4.

3. “Full-cost” in SFFAS No. 4 is defined as the sum of the costs of:

a. Resources consumed by the segment that directly or indirectly contributes to the output,
and

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- b. Identifiable supporting services provided by other segments of responsibility within the reporting entity.
4. DSS is VHA's managerial cost accounting system and needs to be used to determine the full costs of clinical services sold under VA's sharing authorities. Other cost estimation methods may be used to determine full-costs for other types of services (e.g., space, laundry, etc.). The rationale and justification for all price determinations must be fully explained, documented, and maintained in the contract file.
5. SFFAS No. 7 requires that VA facilities disclose when their pricing policy deviates from the general Federal requirement to charge full-cost or market price for goods or services provided for a fee. When a facility charges market price, the facility is still required to disclose whether it is recovering full costs.
6. SFFAS No. 7 requires that VA make these specific disclosures:
 - a. Transactions where the pricing for a good or service differs from full-cost or market price requirements because of the requirements of law or Executive Order.
 - b. Transactions where the pricing for a good or service is provided to another entity at less than full cost or market price requirements.
 - c. Transactions with other Federal agencies that do not recover full cost and why. **NOTE:** *This applies to VA-DOD sharing agreements.*
 - d. Transactions that are entered into knowingly where a loss was expected to occur and the projected amount of the loss. **NOTE:** *This applies to agreements where it is necessary to retain a program essential to the care of veterans.*
7. The most common practice is for facilities to charge a "market price." Market price may be determined using commercial practices, for example by competitive bidding; or by reference to prevailing prices based on a published rate such as Medicare, CHAMPUS Maximum Allowable Charges (CMAC), Blue Cross and Blue Shield, etc. VA may only sell for less than local direct costs if it is necessary to retain a program essential to the care of veterans. All sharing agreements within the authority of 38 U.S.C Sections 8111 and 8153, recovering less than the full cost of services as identified within DSS, must be disclosed in the biennial certification.
8. With regard to Enhanced Sharing agreements, current policy states:
 - a. VA is not limited to recovering full cost (i.e., local direct costs - sum of local fixed direct, variable supply and variable labor costs) in setting a price, and is encouraged to negotiate a rate at whatever level the market will support. The facility staff must determine a price that is in the best interest of the Federal Government, and must document the rationale used in determining a price. Concept approval from the Rapid Response Team (RRT) in VA Central Office is required

by policy (for all 8153 agreements) and the concept submission must include the costing method, the resource to be sold and the rationale for negotiating a rate that is below cost.

b. If the pricing for an Enhanced Sharing contract does not recover full costs, a disclosure statement is required.

9. With regard to VA-DOD sharing agreements, current policy states:

a. The VA medical center, or other appropriate organization, needs to first carefully estimate the costs of providing the service to DOD. This cost must include the incremental cost of personnel, supplies, services, communications, and utilities that would not have been incurred if the service had not been provided. Building depreciation, interest on net capital investment and VHA Central Office overhead are to be excluded from the cost estimates. **NOTE:** *Facilities are encouraged to exclude equipment depreciation in calculating the reimbursement rate due to the nature of funding associated with equipment.*

b. Rates need to take into consideration local needs and conditions. In no case should an estimated rate be below the incremental cost, resulting in a subsidy to the sharing partner.

c. VA medical centers are responsible for ensuring that costs are covered and that the sharing agreements are valid business arrangements.

NOTE: *VHA is in the process of developing new policy which will entail the requirement for cost recovery being changed to “medical centers are responsible for ensuring that local direct costs are covered;” and local direct costs are defined as the Decision Support System (DSS) fixed direct, variable labor, and variable supply costs for the health service to be sold.*

10. In November 2002, the VA-DOD Health Executive Council agreed to a single national rate for clinical services. This new rate structure, the CMAC rate less 10 percent, will be implemented during Fiscal Year 2003. This rate assumes that the local direct costs of providing services are covered. If the rate does not cover these costs, a waiver needs to be requested. If the pricing for a VA-DOD sharing agreement does not recover full costs, a disclosure statement is required. VHA policy only requires that incremental costs be recovered.

11. For TRICARE contracts, current policy states:

a. VHA facilities and VISNs must negotiate reimbursement rates that generate revenues sufficient, at a minimum, to cover the local direct costs of providing the care to TRICARE beneficiaries. Local direct costs are defined as the total of fixed direct, variable labor, variable supplies, and depreciation. VHA facilities and VISNs are expected to monitor actual costs and revenues to ensure revenues exceed costs on an on-going basis. VA TRICARE contracts are based on CMAC rates required by TRICARE contractors. These rates are typically negotiated at a discount off the full rate.

b. If the pricing for a TRICARE contract does not recover full costs, a disclosure statement is required.

12. In summary, where the pricing for any Enhanced Sharing contract, VA-DOD Sharing

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agreement, or TRICARE contract does not recover full costs, a disclosure statement is required. In addition, for VA-DOD Sharing agreements, the disclosure statement must include a reason for not charging full costs. The statement could include something along the lines of: "Current policy encourages increased sharing between VA and DOD by charging CMAC less 10 percent."

13. Self-Certification documents must be sent electronically every 2 years to the VHA Fiscal Quality Assurance mailbox in Outlook. The Self-Certification documents are OF Bulletins O1GC2.03 (certifying compliance with Standard No. 4) and O1GC2.04 (certifying compliance with Standard No 7). Part II needs to be attached if the pricing policy does not recover full cost. These Bulletins can be found at the following website:
<http://www.va.gov/publ/direc/finance/finance.htm>.

14. For further assistance, contact the Medical Sharing Office (176) at (202) 273-8406.